

PRICE: ONE SHILLING

FEB 20 1940

VOL. LI (Vol. 71 New Series) No. 558
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ACCOUNTANCY



THE JOURNAL
OF
INCORPORATED ACCOUNTANTS

(Established 1889)

FEBRUARY, 1940

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ACCOUNTANCY

Published by
The Society of Incorporated Accountants and Auditors
Incorporated Accountants' Hall
Victoria Embankment
London, W.C.2

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VOL. LI. (Vol. 2 New Series)

FEBRUARY, 1940

Number 558

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PROFESSIONAL NOTES

Controller of Costings

The appointment of Mr. E. Cassleton Elliott to be Controller of Costings in the Ministry of Supply was announced during January. In his new post, in which he will serve in a voluntary capacity, Mr. Elliott will advise the Minister of Supply in the exercise of his wide powers of controlling prices through the examination of contractors' costs. The importance of this work may be appreciated from the fact that Mr. Leslie Burgin, the Minister of Supply, recently stated that contracts valued at £234 million had been placed by the Ministry up to the middle of December last. Mr. Elliott became a member of the Society of Incorporated Accountants in 1904 and was elected to the Council in 1926. From 1932 to 1935 he was President of the Society. He is senior partner in the firm of Cassleton Elliott & Co., of London and West Africa. Among the public positions held by Mr. Elliott is his chairmanship of one of the Committees of the Ministry of Health. We are sure that in bringing to bear upon his new work an unusual degree of professional acumen and a most forceful

personality, Mr. Elliott will add an important contribution to the country's war effort.

Price Regulation Committees

In an address at a recent special meeting of the Law Society, Mr. Randle S. W. Holme, the President, drew attention to a serious defect in the regulations of the Board of Trade relating to price regulation committees. Persons alleged to have contravened the Prices of Goods Act may have to appear before one of these Committees, as has been explained in previous issues of ACCOUNTANCY (see, for example, the January issue, page 79), but by the regulations made on January 10, such a person is prohibited from appearing through a legal or professional representative. Mr. Holme was naturally most concerned with the prohibition of legal representation, which he considered was to withhold a right which had hitherto been enjoyed by every accused person. With Mr. Holme's view we entirely agree, but we would add that it is also important that a person alleged to have profited should be allowed to be represented by

his accountant, if he so desires, since the determination of the prices at which the regulated goods may be sold is so largely a matter of accountancy, depending as it does upon permitted increases in price due to rises in certain specified types of costs. We hope that the Board of Trade will see fit to amend the regulations in the light of Mr. Holme's criticism, and that a person alleged to have contravened the Act will also be allowed to appear through his professional accountant if he so wishes. It is satisfactory to record that three Incorporated Accountants are to serve as members of local price regulation committees for England and Wales. The members of the Society who have received these appointments are: Mr. E. Ranson Harrison (North Eastern Committee), Mr. A. E. Goskar (South Wales), and Mr. A. C. Mole (South Western).

"Standard" or "Effective" Rate?

Higher taxation may in itself be undesirable, but many people are now agreed that it is the least undesirable of the several methods of finance available to the Chancellor. That is no reason, however, why taxation should be made to appear more unpalatable than it really is. "At the present time," says a recent commentator on war economics,* "the psychological effect of income-tax is planned as badly as could be. The Chancellor raises the standard rate from 5s. 6d. in the £ to 7s. 6d. in the £. The impression is immediately created that the ordinary man will have to pay 2s. in the £ more. In fact, nothing could be more distant from the truth. The married man with one child and an [earned] income of £300 a year paid nothing before and will pay 1.8 per cent. of his income in 1940-41. The £500-a-year man pays 8.6 per cent. instead of 3.6 per cent. The £1,000-a-year man pays 19.9 per cent. instead of 12.8 per cent. . . . Discussion in terms of the standard rate makes everyone think he is more heavily taxed than he really is." The accountant will see the truth of this statement, even if he makes the reservation that, although the individual may be persuaded to think in terms of the effective rate, the standard rate is bound to retain considerable significance as the rate applicable to companies.

The psychological advantages of dissociating the standard rate from the income-tax payable by individuals have also been discussed recently by *The Economist*. Regrettably, a rise in the standard rate of tax from 7s. 6d. in the £ to 10s. in the £ cannot be dismissed as impossible. But if we contemplate such a great rise in the rate of taxation it would appear to the income earner to be almost beyond endurance. Yet, as *The Economist*

points out, a rise of this amount in the standard rate would mean that the married man with two children who earns £1,000 a year would pay an extra £65 and the married man with no children and £500 a year unearned income would pay an extra £30. The psychological effects of reformulating income-tax in a scale of effective rates—despite the problem of allowing for differing reliefs and allowances—may well be reckoned worth while by a Chancellor who may be faced with the necessity of obtaining an even higher income tax yield in the 1940 or the 1941 Budget.

Fewer Company Registrations in 1939—

Until the outbreak of the war registrations of new companies were almost as numerous as in the corresponding period of 1938, numbering 8,484, against 8,621. But, as was only to be expected, they fell off drastically in the last four months of the year. The actual decline was from 3,990 to 2,093, or 48 per cent. Thus over the year as a whole the total number of new companies registered was 10,577, compared with 12,611 in 1938. The total nominal capital was £49.8 million, against £69.7 million in the previous year. Public issues by prospectus had declined in pronounced fashion even before the outbreak of war, when complete Treasury control of new issues virtually closed the market to all borrowers but the Government.

There were only 179 public companies included in the total of 10,577 companies registered, and of these 101 were "companies limited by guarantee" or "associations not for profit" without share capital. The total nominal capital in the public company group, at £8.8 million, was practically unchanged in comparison with the 1938 figure, and was only the barest fraction of the totals recorded in more normal years. Private companies registered in 1939 numbered 10,398, compared with 12,414 in 1938, and their total nominal capital was £41 million, against £61 million—the capital involved was, again, very considerably less than in more settled years. Of the various industrial groups, buildings and motors showed the greatest declines in the registrations of public and private companies combined (32 per cent. and 27 per cent. respectively), an obvious result of near-war and war conditions. The only appreciable expansion in registrations (5 per cent.) was in the engineering industry, in which pre-war rearmament and the war itself has produced a boom. "We are encouraged to hope for better things to come," say Jordan & Sons, at the end of their annual report on company registrations from which our figures are taken, "by the inspiration received from the name of a company registered on the last day of the year—'Wish Me Luck, Limited.' We wish it luck unlimited."

* *The Economic Effort of War*, by R. W. B. Clarke. (Allen and Unwin.)

—But Also Fewer Failures

Though the war adversely affected business activity as reflected in the statistics of companies registered, the figures of business failures show that registrations are not necessarily a good guide to the state of the country. Failures last year, in fact, compared very favourably with those of 1938. According to *Stubb's Weekly Gazette*, the 1939 total was 4,648, a decrease of 800 on the total for the previous year. There had been declines in each of the six previous years, but compared with last year's decrease of 800, the decline was 68 in 1938 and 30 in 1937. It should be especially noted that the major part of last year's decrease in failures occurred after the outbreak of war, for in the last seventeen weeks of the year the figures show an aggregate decline of 681.

The Bankers' Speeches

Writing a year ago on the annual speeches of the bank chairmen, we said: "It is a dismal prospect, but it is at least probable that at the beginning of 1940 the finance of rearmament will be the *leitmotif* of the bankers' disquisitions." We were only half right; for we should have replaced the word "rearmament" with "war." A major part of the chairmen's speeches this year was devoted to the problems of saving and spending, the means of raising sufficient funds for the Exchequer and the other basic problems of the war economy. Most of them stressed the need for extreme restriction of consumption on the part of the public. Several, like Mr. Edwin Fisher of Barclays and Sir R. Noton Barclay of the District Bank, argued cogently that the injunction not to curtail expenditure drastically for the sake of trade was in place during the early days of the war but that, as our economic organisation becomes more and more adapted for war purposes, limitation of consumption is essential for the freeing of supplies for war production. Mr. McKenna, of the Midland, in stressing the need for the diversion of resources from private purposes to production for the State—a process which, he said, the banks were already fostering by their loan policy—was of the view that "perhaps nothing less than the compulsory saving of all increases of income will be needed to secure the full necessary diversion of spending power." He did not, however, in the light of comments upon Mr. Keynes's recent proposals, consider that public opinion was yet ripe for a scheme of compulsory savings.

Sir R. Noton Barclay added his plea to the many others which have recently been heard for an Economic Commander-in-Chief. "There seems to be no reason," he said, "why in wartime foreign trade should not be conducted on lines more akin to military operations." All the chairmen were agreed that the stimulation of the export trade was a vital

part of the war on the economic front and Mr. F. A. Bates, of Martin's, made the important point that we can only supply markets abroad while our prices are competitive, but that increased home consumption, stimulated by Government purchases, is liable to enhance the price of our manufactures beyond the buying capacity of foreign customers.

Extended City Working Hours

The past month has seen a tentative movement towards a lengthening of the working day in the City, reflecting in this more august sphere the same response to the continued absence of air raids which has encouraged evacuees to return to the towns and which has led the authorities to lengthen shopping hours to 8 p.m. from about Easter time. Two actual extensions of hours have already been announced. Stock Exchange dealings as from February 5 will continue until 3 o'clock, instead of 2 o'clock, while the Rubber Exchange has deferred the close of dealings until 5 p.m. One modification of emergency arrangements which the public would particularly welcome would undoubtedly be a lengthening of banking hours, for there is no doubt that the present 2 o'clock closing causes considerable inconvenience to traders and others. Nor is it altogether welcome to the staffs of the central offices of the banks and of the money market houses, who frequently find the shorter working time inadequate for the volume of business to be transacted and are compelled to work without interruption until the doors are closed to the public. It is known that the question of a return to more normal hours has been under consideration by the chief executive officers of the clearing banks, and an announcement at any moment would not be surprising.

The Society's Examinations

The reasons which caused the Council of the Society to hold the December examinations away from the large urban centres and the satisfactory arrangements made at Taunton and Southport have led to the decision to hold the next examinations on the same lines. They will, accordingly, be held at Taunton School for candidates in the South of England, Midlands and South Wales, and at Southport Technical College for candidates in the North of England and North Wales. As with the last examinations, the dates will be unavoidably later than the normal. It is expected that the commencing date will be July 31 and that the examinations will end on August 2, and a definite announcement will be made in our next issue. The last date for receiving applications is May 21. Candidates who become liable for military service before the next examinations and who were proposing to sit for them may obtain from the Society particulars about the method of applying for postponement of military service on grounds of exceptional hardship.

Financial Equilibrium in Wartime Business

By F. S. BRAY, *Chartered and Incorporated Accountant*

In the present emergency conditions to which industrial activity is exposed, it is by no means an easy matter to maintain business units in a state of financial equilibrium. Technical executives are finding that they must turn to their financial advisers if they are to keep their businesses running on a smooth working basis. The necessity for this was fairly well recognised in peace time, but with the advent of war, accounting control, particularly in relation to future production, has become both urgent and essential.

Some firms have found themselves in the position of having to provide for an urgent sweep forward in their productive capacity if they are to fulfil their contracts, an expansion which in many cases the existing liquid resources have been called upon to carry. Apart from the question of the provision of new plant and machinery to cope with the new output, it has sometimes happened that all the available working capital, as represented by liquid resources, has become temporarily locked up in expanding stock and work-in-progress, with the result that where such expansion has not reached its maximum, a firm in this position has had difficulty in paying its bills for raw materials and in finding money to pay the wages. Many companies who have had poor records welcome the chance of retrieving some of the lost ground, but in their anxiety not to miss opportunities, they tend to overlook the question of financing the new work which they seek to undertake. Such companies are often already carrying substantial overdrafts, so that they cannot very well turn to their bankers for further liquid resources. A number of businesses have experienced increased difficulties from the fact that they have completed Government contracts of larger dimensions than they have been wont to undertake in peace time, only to find that settlement by the Government departments concerned is frequently subject to delay, even after certificates of acceptance have been issued. Other businesses not so fortunately placed in relation to the national necessity have been faced with the problems of decreased demand, and in order to avoid accumulations of stocks with a consequent inroad on liquid resources, they have had to diminish output and accept a corresponding increase in costs. In all these cases the maintenance of liquidity has been the most pressing problem for solution, more particularly having regard to the present tendency to restrict credit facilities.

From what has been said it is clear that a financial adviser who is aiming to keep a business in financial equilibrium in these abnormal times, must insist, so far as possible, on a relatively strong working

capital basis. Where an expanded output is required, a statement of the cost of this expansion at least in terms of materials, wages and works oncost should be prepared covering the time element from the beginning of this increased production to the date when the finished goods are invoiced and turned into debtors. The time lag between the date of invoicing and the date of payment must also be taken into consideration. This cost of expanded output must be contrasted with the amount of existing working capital, in particular as represented by liquid resources, having regard to normal output requirements and any variations affecting that normal output. In computing the existing working capital for this purpose, the current assets should be compared with the current liabilities, and since the question of liquidity is of great importance, it is desirable to make a division of the current assets into those which are floating and those which are liquid, treating as floating assets, stock and work-in-progress, unexpired payments, debtors and such-like items. Liquid assets will consist of such items as readily marketable securities held as temporary investments, bank balances and cash in hand. The figure of liquid assets is the important one to consider after making due adjustment for any excess of current liabilities over floating assets. Where the new expanded output requires the provision of new plant and machinery the contemplated capital expenditure must be considered as an additional financial commitment to be paid for out of liquid resources. It cannot be too strongly emphasised that all the figures we have been considering should be dealt with in a cash budget which should reconstruct the liquid position at least at weekly intervals more particularly over the period in which output is being expanded.

Where a company finds itself sufficiently strong to finance an abnormal expansion in output, it must still take care to see that the flow from floating to liquid assets is keeping pace with the expansion in the volume of business. This again is a vital accounting relationship which should be thrown up from the periodical cash budget. A company which has not a strong working capital basis should be concerned to ascertain that additional finance can be obtained sufficient to place that company in the position of accepting profitable orders over and above a normal volume. In some cases it may even be necessary to seek advances against such orders equivalent to the new finance required. Moreover, the cost of obtaining further finance must not be overlooked when determining the profitability of an expanded order book. It must also be realised that the income

tax and excess profit tax demands, since they have to be paid in cash, will have a depressing effect upon liquid resources, the precise effect of which must be anticipated by constructing a cash budget at the time when the demands will fall due for payment.

In times like the present, costs will tend to rise and this position must be watched in relation to both the assessment of equilibrium liquid resources and the cost of sales as related to specific orders. Where an expansion of output entails the installation of new and specialised plant and machinery for which there are but few alternative uses in peace time, such capital expenditure should be treated as an element in cost of production by adopting a rate for depreciation which will include this high obsoles-

cence factor in addition to wear and tear. Moreover, it must not be overlooked that difficulties in the way of securing supplies and deliveries of raw materials will have their effect on costs.

It is clear, therefore, that a balanced output in relation to working capital must still be the aim of industrial and business units. As accountants are aware, an uncontrolled expansion in output can bring forth instability, an instability which may show itself in both the immediate and more remote future. Every possible effort must be made to meet the urgency of the present emergency requirements, yet this must be done in such a manner that future productive capacity, working under less abnormal conditions, will not be unduly jeopardized.

Excess Profits Tax

Following last month's article on practical points arising out of the Excess Profits Tax, we give below an explanation of the provisions regarding inter-connected companies. We invite readers to write to us on further points of interest and we will endeavour to deal with them in subsequent issues of ACCOUNTANCY.

INTER-CONNECTED COMPANIES

It is understood that the Commissioners of Inland Revenue have followed the Excess Profits Duty practice by setting up area offices to relieve the district offices of the more complicated cases—which will include most instances of inter-connected companies. This is a welcome step, as it will ensure uniformity of practice. However, we confidently expect that the next Finance Bill will clarify many points which arise in Section 17.

Where a company is the owner, either directly or through intermediary companies, of at least 90 per cent. of the ordinary share capital of another company, the second company is a subsidiary of the first. The method of computing the holding is the same as that laid down for N.D.C. purposes by the Finance Act, 1938. For E.P.T. purposes, a principal company and its subsidiaries are to be assessed as one unit. Provision is made for the case where the relationship of principal and subsidiary company does not extend to the whole chargeable accounting period.

Where a company resident in the United Kingdom is a subsidiary of a company not so resident, the non-resident company must be ignored; if the resident company is itself a principal company as regards subsidiaries, the resident company and its own subsidiaries will be the unit of assessment.

It appears that a subsidiary company will normally

be under the control of the directors, as the principal company will be regarded as a director, being "a person in accordance with whose directions or instructions the directors of a company are accustomed to act," and this will be so even if the "principal company" has to take its orders from a foreign holding company.

In any chargeable accounting period throughout which the relationship of principal and subsidiary company exists, the same standard period (that of the principal company) must be taken for both companies; it will therefore be necessary to select the standard period by reference to the combined profits and capitals.

Where, however, the relationship subsists for only part of the chargeable accounting period, the excess or deficiency of profits of each company will be ascertained independently by reference to their respective standards, and the results only will be amalgamated.

Illustration

P. company held 90 per cent. or more of the ordinary share capital of Q company and R company for many years prior to 1935. It also held 80 per cent. of the ordinary share capital of S company, but acquired a further 10 per cent. on October 1, 1939. The Q, R and S companies are controlled by the directors.

TABLE I.

	P.		Q.		R.		S.	
	Profits	Capital	Profits	Capital	Profits	Capital	Profits	Capital
Year 1935	40,000	200,000	5,000	40,000	8,000	60,000	9,000	30,000
1936	39,000	180,000	6,000	50,000	10,000	62,000	5,200	31,000
1937	44,000	190,000	4,000	48,000	12,000	66,000	6,000	28,000
Chargeable accounting period April 1 to December 31, 1939	35,000	210,000	3,000	46,000	14,000	70,000	8,000	32,000
Chargeable accounting period year 1940	50,000	240,000	7,000	47,000	18,000	68,000	9,000	33,000

The relevant amounts of profits and average capital employed, as arrived at for E.P.T. purposes, were as in Table I.

TABLE II.	
Standard profits (1935)	£ 9,000
Add 10 per cent. on increase in capital ...	200
	<u>£9,200</u>
Proportion April 1 to September 30, 1939, one-half	£4,600
Profits of chargeable accounting period, April 1, to September 30, 1939, two-thirds of £8,000 ...	5,333
Excess	<u>£733</u>
Proportion of standard profits, October 1 to December 31, 1939	2,300
Profits of chargeable accounting period, October 1 to December 31, 1939	2,666
Excess	<u>£366</u>

In 1939, S company is a subsidiary for only part of the chargeable accounting period, hence the

excess or deficiency of its profits must be determined separately, as in Table II.

[It is assumed that the profits and capital in 1939 can be apportioned on a time basis. If there was fresh capital introduced in the last three months, an appropriate calculation would be required.]

The selection of the standard period of the group would proceed as in Table III.

The allocation of the E.P.T. to the individual companies appears to be a domestic matter, to be dealt with as in Table IV.

As the section stands, it appears that the tax is assessable on the holding company. If it is to be regarded as a charge on that company alone, the comparison of E.P.T. and N.D.C. becomes unworkable, even where the holding company has claimed to be assessed on the whole profits of the group, owing to the different definitions of subsidiary company for the two duties.

TABLE III.

	P., Q. and R.		P., Q., R. and S.	
	Profits	Capital	Profits	Capital
	£	£	£	£
Year 1935, Combined Profits and Capital	53,000	300,000	62,000	330,000
Year 1936, Combined Profits and Capital	55,000	292,000	60,200	323,000
Year 1937, Combined Profits and Capital	60,000	304,000	66,000	332,000
1935 and 1937, Average Combined Profits and Capital	56,500	302,000	64,000	331,000
1936 and 1937, Average Combined Profits and Capital	57,500	298,000	63,100	327,500
Period in 1939, Combined Profits and Capital	52,000	326,000	—	—
Year 1940, Combined Profits and Capital	—	—	84,000	388,000
If the choice of the standard period is	1935	1936	1935 & 1937	1936 & 1937
	£	£	£	£
The standard profits would be:				
1939 P., Q. and R. profits	53,000	55,000	56,500	57,500
8 per cent. on increase in capital	2,080	2,720	1,920	2,240
Standard Profits	<u>£55,080</u>	<u>£57,720</u>	<u>£58,420</u>	<u>£59,740</u>
1940 P., Q., R. and S. Profits	62,000	60,200	64,000	63,100
8 per cent. on increase in capital	4,640	5,200	4,560	4,840
Standard Profits	<u>£66,640</u>	<u>£65,400</u>	<u>£68,560</u>	<u>£67,940</u>

COMPUTATION OF E.P.T. PAYABLE.

S. Company, 6 months to September 30, 1939, 60 per cent. on £733	£	s. d.
Group: P., Q. and R., 9 months to December 31, 1939.	439	16 0
Profits of period	£52,000	
Less Standard Profits (1936 and 1937) as above, £59,740		
Three-quarters thereof	44,805	
Excess	7,195	
Add Excess profits of S. for 3 months to December 31, 1939	366	
	<u>£7,561</u>	
E.P.T. at 60 per cent.	£4,536	12 0
P., Q., R. and S. Year 1940—Profits	84,000	
Less Standard Profits (1935 and 1937)	68,560	
	<u>£15,440</u>	
E.P.T. at 60 per cent.	£9,264	0 0

TABLE IV.

	P.			Q.			R.			S.		
	£	£	£	£	£	£	£	£	£	£	£	£
1939												
Profits of chargeable accounting period ...			35,000			3,000			14,000			
Standard profits: 1936 and 1937 profits ...		41,500			5,000			11,000				
Capital, 1939 ...	210,000			46,000			70,000					
Capital, 1936 and 1937 ...	185,000			49,000			64,000					
	<u>£25,000</u>			<u>£3,000</u>	(decrease)		<u>£6,000</u>					
*8 per cent. thereon		2,000			240			480				
		<u>£43,500</u>			<u>£4,760</u>			<u>£11,480</u>				
Three-fourths			32,625			3,570			8,610			
Excess (E) or Deficiency (D)			(E) £2,375			(D) £570			(E) £5,390			(E) 1,099 (see Table II)
60 per cent.			<u>£1,425</u>			(D) £342			<u>£3,234</u>			<u>£659 8s.</u>

*As the group is assessed as one unit, the fact that one component company has a decrease in capital must be ignored so far as the statutory percentage is concerned. As the group has an increase in capital, and P. company is not director-controlled, 8 per cent. is appropriate.

As P., Q. and R. have to pay only £4,317 between them, it seems appropriate to divide Q.'s deficiency between P. and R. in proportion to their excess profits, that is £104 and £238 respectively. It will be interesting to learn the official attitude towards this point for income tax purposes, and in computing N.D.C. payments.

	P.			Q.			R.			S.		
	£	£	£	£	£	£	£	£	£	£	£	£
1940												
Profits ...			50,000			7,000			18,000			9,000
Standard Profits, 1936 and 1937		42,000			4,500			10,000			7,500	
Capital, 1940 ...	240,000			47,000			68,000			33,000		
Capital, 1935 and 1937 ...	195,000			44,000			63,000			29,000		
Increase ...	<u>£45,000</u>			<u>£3,000</u>			<u>£5,000</u>			<u>£4,000</u>		
8 per cent. thereon		3,600			240			400			320	
			45,600			4,740			10,400			7,820
Excess Profits			<u>£4,400</u>			<u>£2,260</u>			<u>£7,600</u>			<u>£1,180</u>
60 per cent. ...			2,640			1,356			4,560			708
*Adjust 1939 deficiency of Q.			+ 104			— 342			+ 238			—
			<u>£2,744</u>			<u>£1,014</u>			<u>£4,798</u>			<u>£708</u>

* This adjustment is necessary in order to ensure that each company bears its due proportion of E.P.T. over the years.

Where the principal company is a pure holding company, carrying on no trading itself, there is an apparent double charge to E.P.T. Dividends paid by a subsidiary company to the holding company will be included in the income of the holding company as computed for E.P.T. purposes, although not allowed as deductions in computing the subsidiary company's profits. The profits of each company must be computed separately, and the adjusted profits or losses combined. The point could be overcome by a provision eliminating such dividends

from the holding company's profits. It should also be provided that the value of the shares of the subsidiary company held by the principal company be excluded in arriving at the capital employed by the principal company. We shall expect provision to be made in this year's Finance Act to that effect. Provision is already made to prevent double assessment of interest, royalties, etc., in such cases, and a simple clause on similar lines regarding dividends and other distribution of profits would meet the case. The whole of Section 17 requires amendment, as it is full of anomalies and unworkable provisions.

Accounting Work on a Punched Card Installation*

By W. F. EDWARDS, Incorporated Accountant.

There exist at the present time, in the minds of many business executives, three major objections to the more general adoption of punched card installations. They are firstly cost, secondly, the idea generally held that while excellent for statistics, they are not really suitable for general accounting and, thirdly, the lack of knowledge on the subject in the ranks of the accounting profession and, consequently, the belief among executives that such installations are suitable only for large companies and public utility undertakings.

It is hoped that a careful perusal of what is, necessarily, only a summary of work being done on a Powers-Four installation will satisfy readers on the following points:—

(a) That the fixed cost—in our case an annual rental of around £600 per annum—is no bar to serious consideration of the capacity and benefit of the equipment.

(b) In no other way can necessary business facts be made available, in a flexible form, so cheaply as by punched cards. Thus, 1,000 "facts" can be punched and verified on cards at a total maximum card and wages cost of around 12s. or, say, seven "facts" for 1d. (Contrast this with the wages cost of typing a letter or invoice or the typing or writing out of sales, purchase, or work orders.)

(c) The flexible "facts" having been made available, they can be sorted into any required classification at an average of 100 per minute, and then printed and totalled at the rate of 80 items per minute. By no other method can this flexibility and speed, giving nevertheless accurate facts presented in a neat and clear manner, be secured.

(d) A general impression exists that the usual purpose of a punched card installation is the inserting into a machine of a quantity of punched cards and the printing, in due course, of one or more totals, and that if at a later date the totals require to be proved the whole of these operations must be repeated. This is the view held by many accountants, and it has even been suggested that if and when punched card installations become general each accountant will need an installation in his office to enable him to carry out his audit of the accounts concerned. Actually any such scheme is neither practicable nor necessary.

As to the impracticability of such a scheme, punched card installations are the same in general principle but vary in size and layout and each is

designed to meet the particular requirements of its user, thereby rendering it impossible for any accountant to have an installation suitable to handle the cards of all, or even a few, of his clients.

As to necessity, no auditor would object to accounting records being printed or typed instead of being written by hand, and when applied to accounting all that a punched card installation does is to print or type the accounting record. To pass from the general to the specific, each card contains one or more flexible "facts," and all the machine does is to print, in detail—termed "Listing"—each "fact" in one or more desired ways. Many hand-written petty cash books, for example, have columnar analysis and one or more of the columns contain particulars of many sundry accounts. An analysis of the total of each sundry column is shown at the foot of the column and no auditor complains because the Cashier has not retained the scrap paper on which he built up the analysis.

Similarly, if a card is punched for each account shown on a petty cash voucher and if each such card is "Listed," and the list totalled—by the machine—and if, subsequently, the cards are sorted—or analysed—and the totals chargeable to each account are shown on a summary or tabulation, no "step" which was necessary to the hand-written record has been omitted in the working of the punched card installation, and each listed item can still be vouched with the original vouchers and the cast and the analysis can both be checked. On the other hand, owing to the accuracy of mechanical devices, much that had to be exhaustively checked in the hand-written records need only be "tested" in the records prepared by the punched card installation. The chief point is that the auditor need never concern himself with the cards, as they were only the medium of preparing the punched card installation records, like the pen, ink and manual work of entering the hand-written records.

It is hoped that this brief contrast of the two methods will dispel many illusions and create an interest in the minds of accountants in punched card installations.

Thus whereas when building up for statistics it is usual to deal only in tabulated totals, when used for accounting all facts can, and should be, listed, thereby enabling all original documents to be vouched direct to the schedules produced on the punched card installation. There are no exceptions to the availability of this facility.

* Reprinted and condensed from "Powers-Samas Magazine."

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(4) Cards bearing only the printed numbers in each of the 36 columns, and plain schedule paper were used for *all* jobs until we were satisfied we had developed the most satisfactory columnar and heading layout, whereupon the cards for approved jobs were printed and specific colours or tints selected, and headings printed in the schedules. We found that even unskilled operators soon learned to punch correctly the plain cards referred to above. Until printed headings had been approved for schedules we used rubber stamps costing a few shillings each for heading up

We describe hereunder a few of the accounting jobs being done on the above equipment, and to enable the relationship between similar jobs to be more easily grasped, the information is set out in

A SELECTION OF CARDS USED WITH "STRAIGHT"-WIRED CONNECTION BOX																																				
COLUMN NO#2	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36
1. EQUIPMENT SALES 2. EQUIPMENT INVOICES & CREDIT NOTES	DATE	INVOICE N°	ORDER N°	SUB-DUCT		OUTLET	MODEL	UNITS	NET		LIST																									
3.(C) PARTS COSTS 4. SERVICE SALES 5. SERVICE COSTS	DATE	WO. N°	A/C N°	INVOICE N°		INV. LINE N°	HOURS	AMT																												
11. FACTORY HOURLY LABOUR	DATE	CLOCK N°	ORDER OR GROUP N°		ADDED TIME	HOURS																														
12. FACTORY DEFECTIVE MATERIAL TAGS	DW N°	PART N°			DESCRIPTION		QTY.	DW TAG N°	MAY	LABOUR																										

tabular form, details which are not of general interest being omitted.

ACCOUNTS PAYABLE INVOICES AND CREDIT NOTES

(a) Weekly list by account numbers of seven-day accounts payable, approved invoices and credit notes.

(b) Weekly tabulation of above by supplier from which, by reference to actual invoices, cash discounts to be deducted and the net amount to be paid are calculated. Cards for these items are punched and sorted in with the invoice and credit note cards and with suppliers' and suppliers' bank's name and address cards and the whole listed by

(c) Supplier, on separate traders' credit bank advice slips in triplicate, the copies being for the bank, the supplier and our files.

(d) The cash cards are then sorted by bank head office number and a list in triplicate obtained for each bank, thus giving the total to be disbursed through our bankers to all the banks. This list, in duplicate, together with a cheque for the total and the trader's credit bank advice slip in respect of each supplier being paid are then sent forward to our bank. Our bank returns one copy of the list bearing a certificate that the payments shown have been made, which serves as our cash book.

(e) Monthly list by account numbers of monthly accounts payable approved invoices and credit notes, as in (a) above.

(f) Monthly list of (e) by supplier, thus giving a list of outstanding creditors at the month end, which can be checked with their statements as received. In the following month, when these accounts are paid, operations similar to those outlined in (b) to (d) are carried out.

PETTY CASH DISBURSEMENTS

(a) Weekly list, by voucher number, showing account number and, in the case of salesmen and other personal accounts, names. This serves as a cash book.

(b) Bi-monthly tabulation of above by control account—personal, administration expense, sales expense, service expense, etc.; and, in the case of expenses, detail account—postage, carriage, meal allowances, travelling expenses, company car expenses, etc., for general ledger entries.

WEEKLY SALARIES AND WEEKLY AND HOURLY WAGES

(a) Weekly list of weekly salaries and wages, by employees, using standard salary or wage and deduction cards.

(b) Weekly list of hourly wages payable for the week, by employees, new wages cards being punched each week and used with standard deduction cards.

A SELECTION OF CARDS USED WITH "Y" WIRED CONNECTION BOX.																																				
COLUMN NOS.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36
6. A/C PAYABLE A. SUPPLIERS NAME & ADDRESS B. BANK NAME & ADDRESS (1 CARD NAME 2 CARDS ADDRESS)	SUPPLIERS NO.					NAME & ADDRESS																														
6. A/C PAYABLE A. INVOICES B. CREDIT NOTES C. CASH D. DISCOUNT	SUPPLIERS NO.		DATE DAY MTH		SUPPLIERS INV. NO.		ORDER NO. OR BANK NO.		DESCRIPT.		ACCOUNT NO.		AMT.																							
7. PETTY CASH DISBURSEMENTS	DATE DAY MTH		VOUCHER NO.		VAN NO.		NAME (PERSONAL ACCOUNTS ONLY)		AMT.																											
9. PAY ROLL GROSS SALARY OR WAGES																																				
9. PAY ROLL DEDUCTIONS A. HEALTH INSURANCE B. UNEMPLOYMENT INSURANCE C. HOSPITAL SAVINGS ASSN D. GROUP LIFE INSURANCE E. SPORTS CLUB																																				
13. GENERAL LEDGER POSTING	A/C NO.		MTH		IV. NO.		DESCRIPTION		AMT.																											

(c) Weekly tabulation of salaries and wages of (a) and (b), by departments or groups.

(d) Weekly tabulation of deductions of (a) and (b), thus giving sectional totals of national health, unemployment, hospital savings association and group life insurance deduction, and also of the employer's portion of such costs.

(e) Weekly list of weekly salary and wages cards, by employee numbers for pasting on to a 13-column sheet and so enabling the total salary or wage for the quarter of each employee to be obtained by cross casting by a Comptometer operator, for the purpose of annual or semi-annual income-tax returns.

(Note.—These cards show only employee numbers, thus avoiding disclosure of individual salaries, etc. The names are shown on the first deduction card.)

(f) Quarterly list, by clock numbers, of weekly wage cards of hourly paid employees per (b) for income-tax quarterly totals, thus giving information similar to that in (e) above.

(Note.—These are dealt with in this way as the wages paid vary from week to week—see (b) re new cards.)

FACTORY HOURLY LABOUR

(a) Daily lists, with totals by—

(1) Employees, showing details of productive group, work order, or account number.

(2) Productive group, work order or account number, showing employees.

(Note.—The factory clocks print in twelfths of an hour, thereby facilitating calculations of elapsed time for punching in cards and the totalling thereof on the sterling "banks" of the Tabulator. Thus, a job started at 9.10 a.m. and finished at 11.4 a.m. is recorded on the man's card by the clock as "on" at 9.2 and

"off" at 11.1. This can be read as shillings and pence and the "elapsed" time of $1\frac{1}{4}$ hours is punched in the card as 1s. 11d. A daily list total of factory hourly labour of, say, £121 6s. 8d. represents $2,426\frac{1}{2}$ hours.)

(b) Weekly tabulation with totals by—

(1) Employees, showing details of productive group, work order, or account number worked on, for payroll purposes.

(2) Productive group, work order, or account number, showing employees for bonus and/or cost or expense control purposes.

(Note. Overtime is punched and tabulated separately as "added time.")

GENERAL LEDGER DEBITS AND CREDITS

(a) Monthly list of general ledger debits and credits, in account number order (thus giving in effect a monthly detailed Trial Balance) showing journal voucher number, account number, short description and amount.

(b) After review of the above the cards are posted to the general ledger sheets of individual accounts, with the aid of the Light Designator attached to the Tabulator, and the monthly movement on each account is carried out as a balance and, later, added or deducted by hand to or from the balance on the account to the end of the previous month.

From the individual lists or tabulations monthly journal vouchers are prepared by the member of the accounting staff handling each particular job, each journal voucher being passed to the general ledger clerk, who reviews the entries thereon prior to passing the voucher to the department for the punching of cards in respect of each entry. Upon completion of all vouchers and the punching of the cards relating thereto the Trial Balance is prepared, from which a draft of a financial statement for the month is drawn up, during which same period the cards are posted to the general ledger and from the final balances shown therein a balance sheet, monthly and year to date profit and loss account, and various sales and expense schedules are prepared, typed and submitted to the regular monthly meetings of the board of directors of the company.

Following on the installation of the equipment, our accounting costs—after including therein the rental of the equipment and the cost of cards—have been reduced and more accurate detail made available more promptly.

The Emergency Acts and Orders

In our November, 1939, issue we published the first instalment of a comprehensive guide to the war-time enactments and Orders which most concern the Accountant. The series is brought up to date each month, and the fourth instalment is given below. The summaries are not intended to be exhaustive, but only to give the main content of an Act or Order, the full text of which should be consulted if details are required.

ACTS AND BILLS

National Loans Act, 1940.

When a conversion offer is made to holders of securities which are to be redeemed, the Treasury may make rules providing that a holder shall be deemed to have accepted the offer unless application for repayment in cash has been made in accordance with the rules. This regularises the procedure which is being adopted for the $4\frac{1}{2}$ per cent. Conversion Loan, 1940-44.

Old Age and Widows' Pensions Bill.

Women insured in their own right, and wives of old age pensioners, are to become entitled to an old age pension at the age of 60 instead of 65. The weekly contributions of employers and employees are increased by 3d. for women and 2d. for men, of which in each case the employer pays 1d. Supplementary payments may be made, in case of need, to widows over 60 and to old age pensioners, and consequential adjustments may be made in the General Exchequer Grants payable to local authorities which are public assistance authorities.

ORDERS

EXPORTS

No. 1800 (1939). *Export of Goods (Prohibition) (No. 2) Order, 1939, Amendment Order (No. 14), 1939.*

The earlier export prohibition Orders are further amended, chiefly in respect of paper and paper board.

No. 1 (1940). *Export of Goods (Control) Order, 1940. List of Goods of which the exportation from the United Kingdom is controlled under the Export of Goods (Control) Order, 1940, showing the position on January 15, 1940.*

All Export (Prohibition) Orders and Export Licences are revoked and re-enacted, with detailed amendments, in a consolidated Order. The List is a pamphlet containing the revised Schedule with an explanatory statement, including the addresses to which application should be made for export licences.

No. 2.—*Open General Export Licence—Coal, Coke and Manufactured Fuel.*

Coal and coke may be exported from the United Kingdom on production of a certificate from the Secretary for Mines.

(See ACCOUNTANCY, January, 1940, p. 93.)

RENT RESTRICTION

Provisional.—Rent Restrictions Regulations, 1939.

New forms of notice are prescribed for insertion in rent books and similar documents relating to controlled houses in England and Wales.

TRADING WITH THE ENEMY

No. 1875. *Trading with the Enemy (Specified Persons) (Amendment) (No. 4) Order, 1939.*

The earlier Trading with the Enemy (Specified Persons) Orders (Nos. 1166, 1333, 1537 and 1690) are revoked. A consolidated Schedule is presented of all persons and businesses trading in neutral countries who are to be deemed to be enemies for the purposes of the Trading with the Enemy Act, 1939.

No. 1915.—*Trading with the Enemy (Polish Notes and Coins) Order, 1939.*

Notes and coins expressed in terms of the Polish zloty are declared to be enemy currency.

ACCOUNTANCY

Formerly the Incorporated Accountants' Journal
Established 1889

The Annual Subscription to ACCOUNTANCY is 12s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. od., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2

THE NEED FOR SAVING

To spend or to save? This single question has been the subject of perennial controversy. Until a few months ago there was no consensus of opinion whether a spending policy or a saving policy contributed more to a nation's material welfare. To-day, however, all that is changed. The nation is at war. All other desiderata must be sacrificed to the single aim of success in the combat. We are no longer concerned with ultimate economic welfare: the very term savours of the esoteric. We are concerned with producing the maximum fire-power and martial supplies in the shortest possible time. This aim must dominate Government and individual alike. The question "to spend or to save?" need no longer be asked. It is not merely desirable that saving should take precedence over spending in the plans of the individual: it is a necessity. It is not only important that the Government should be able to plan that the production of a vastly increased quantity of material of war will take the place of the production of consumables: it is a categorical imperative. Saving on the largest possible scale is a vital pre-requisite of our war effort; spending *must* be curtailed.

It has recently been estimated that the pre-war consumption of the country amounted to £4,500 million and that of this total at least £1,700 million, or 38 per cent., needs to be diverted from ordinary expenditure by the public to special war expenditure by the Government. The problem of how this is to be done is one of the most difficult presented by the war. Taxation will necessarily be increased further, but even by the most liberal estimates of its yield, further taxation would be insufficient, however great the burden it placed upon every class of society. An inflationary rise of prices may seem an easy alternative way of restricting public consumption to the necessary degree, especially if inflation is prefixed by the adjective "controlled." But it is in the nature of inflationary methods of finance that they outstrip control and that, from being easy, they proceed to present the most unmanageable problems. Inflation must be eschewed. We are left with saving as the only remaining means of ensuring the diminution in consumption which this war will impose—and is already imposing—upon us.

Saving may be voluntary. Or it may be compulsory—if obligatory deductions from dividend warrants, salary cheques and wage packets, enforced by the Government for its war purposes and offset

only by promises to repay after the war, can be termed saving. Schemes such as those of Mr. Keynes, which propose to finance the war partly by such deductions, do not make a ready appeal to the British character. It would be lamentable, however, if the general unwillingness to contemplate the possibility of compulsory savings in this country sprang from a failure to appreciate the size of the sums which must be handed over for Government use during the war. One of the most probable effects of such a failure would be the imposition of the very plan of compulsory savings which, as public comments have recently shown, is regarded as an exceedingly unpalatable measure.

Accountants are in an especially good position not only to appreciate the need for saving but also to teach its vital importance at the present time. They should bear in mind the prior place which the national drive for savings should take in the plans of businesses and individuals. Where alternative methods of investment are concerned, they should draw attention to the advantages over other types of securities offered by the new defence bonds and savings certificates—advantages which take the solid shape of yield and stability of value. Where wage increases are involved, they might advise that part at least of the increases be given in the form of savings certificates.

There are other ways, too, in which accountancy as a profession can assist the savings campaign at present being conducted by the National Savings Committee. A most important part of that effort is the formation of national savings groups in industrial units. These groups, which can be formed with any number of contributors and which cost nothing at all to run—even the stationery and cards will be supplied free of charge by the National Savings Committee—enable small sums to be regularly saved by employees in the easiest possible fashion. The drive inaugurated by the National Savings Committee nine weeks ago has already resulted in the massive total of 6,000 new savings groups. The measure of this initial success can be gauged from the fact that during the preceding ten years the number of groups formed was 5,000. There are now 48,000 groups in the country, but it is estimated that there are over 350,000 places where groups can be usefully formed. During the last nine weeks the aggregate sum saved in the form of savings certificates and defence bonds is no less than £68 million, or about £1 million a day. As one commentator has recently put it, "a million a day keeps inflation away."

It may be suggested that accountants can perform a very useful national service in urging, wherever appropriate, the formation of savings groups. By so doing, they would not only be furthering the national war effort but they would be helping to avert much more drastic methods of finance and they would therefore be acting in the interests of business as a whole. They would also be helping to inculcate that sense of the value of saving which is already a part of the accountant's make-up but is not shared by every other section of the community.

TAXATION**Total Income for Sur-tax**

The Finance Acts, 1926 and 1927, simplified income tax in certain ways, not least in establishing the principle of one return per taxpayer which applies except in exceptional circumstances or where the taxpayer elects to make a separate return for sur-tax purposes. Since each income-tax return must disclose the income of the previous year, while sur-tax is assessed on the statutory total income of the year of assessment, it is necessary to examine two returns in order to arrive at the total income for sur-tax purposes. Except in the case of new and discontinued sources, income assessable under Schedules D and E is, with few exceptions, assessed on the "preceding year" basis and the amounts to be included in the total income for any year of assessment are therefore the figures from those sources extracted from that year's return of the previous year's income. All other income and charges thereon must be included in arriving at the total income on the basis of the amount receivable or payable in the year of assessment, and will be the figures as included in the following year's return. As sur-tax is a deferred instalment of income tax, payable on January 1 in the year following the year of assessment, there is adequate time for the necessary examination of both returns and the making of the assessment to sur-tax before its due date. It is also owing to this deferment, of course, that the sur-tax rates are fixed in arrear, so as to apply to the tax collectible in the year to which the Finance Act relates.

In spite of the relative simplicity of the ascertainment of total income, however, it is not out of place to remind readers of some important details which must be borne in mind in checking sur-tax assessments.

In the first place, care must be taken to see that due deduction has been made for reliefs allowed for income tax but which do not appear on the return (other than personal allowances such as those for earned income, children, life assurance, etc., which, of course, do not apply to sur-tax). In particular, there must be deducted the amount of income on which tax has been relieved in respect of a loss claim under Section 34, Income Tax Act, 1918, or Section 29, Finance Act, 1927; or in respect of additional cost of maintenance, etc., under Rule 8 of No. V of Schedule A; or income in respect of which the lessor of mineral rights has had an allowance for expenses of management or supervision of minerals under Section 26, Finance Act, 1922 (or similar concessional relief in respect

of management of patent royalties); and interest paid to a bank, stockbroker or discount house on which income tax is repayable under Section 36, Income Tax Act, 1918. The amount of any interest payable to a building society is also deductible. If a claim has been agreed under Rule 6 of Schedule B, the actual profit of the year must be substituted for the assessable value.

Moreover, where interest is being paid on death duties or arrears of excess profits duty, income for sur-tax purposes may be reduced by such an amount as, after deduction of income tax at the standard rate, would give a net amount equal to the interest actually paid.

Under Section 39, Finance Act, 1927, income chargeable with income tax by way of deduction at the standard rate in force for any year is deemed to be income of that year. Similarly, annual charges are deductible in the year in which they are payable, irrespective of the period of accrual. Care must be taken to include the gross amounts in these cases: this can usually be arrived at by ascertaining the gross sums which, after deducting income tax at the standard rate for the year (the *final* standard rate where the rate has changed during the year) would leave the net amount actually paid. Where, however, income is received from a British company which has passed on Dominion income-tax relief, the standard rate must be reduced by the rate of that relief, and the grossing proceed by reference to the rate so found. Interest received from a building society is not grossed; the actual amount received must be included in the total income. Similarly, where a company paying a dividend has not exercised its right to deduct tax, and has expressed the dividend to be "without deduction of income tax," the actual amount received is the amount assessable to sur-tax (*Cull v. C.I.R.*, 1939, 18 Annotated Tax Cases, 149). Attempts were at one time made to include in the income assessable to sur-tax annual interest due, though not received, but it was held in *Lambe v. C.I.R.* (1933, 18 Tax Cases, 212) that receivability without receipt does not make it income; the criterion of liability is payment, not ability to pay. Similar principles apply to annual payments.

A person in beneficial occupation of property must include the value of such occupation in his income, and where a beneficiary under a will enjoys not only beneficial occupation but also freedom from expenses of upkeep, the gross equivalent of outgoings paid by the estate is income (*Sutton v. C.I.R.*, 1929, 14 Tax Cases, 662; *Miller v. C.I.R.*, 1930,

15 Tax Cases, 25). If the ground rent of property exceeds the net annual value, the excess is not deductible for sur-tax purposes (*Solomon v. C.I.R.*, 1933, 18 Tax Cases, 227).

Reference should also be made to the special rules affecting "bond washing," settlements, income from residue, companies and trusts abroad, and income arising in Eire, but space does not permit their discussion in this article.

An article on this subject would not be complete without reference to Sections 33, 34 and 35, Finance Act, 1927, which provide that, in certain cases, the sur-tax chargeable may be adjusted where the total income arrived at according to the ordinary rules gives inequitable results owing to the operation of Section 39, Finance Act, 1927.

Under Section 34, a taxpayer may claim relief from sur-tax where, as a result of the rule that income taxed by deduction is deemed to be income of the year in which it is receivable, the income from any assets for the year of assessment represents more than the income which would be attributable to the year if the income were deemed to accrue from day to day, and in consequence the sur-tax payable by him exceeds by more than 5 per cent. the sur-tax payable if the accruing basis had been adopted. The relief is claimable when making the return or by appeal against the assessment. In giving relief for that year and any succeeding year, the Special Commissioners are to take into account all the circumstances and the effect on any preceding year or years of the accruing basis.

ILLUSTRATION

A. had a statutory total income for sur-tax purposes of £4,000 for 1936-37, £5,000 for 1937-38, and £9,000 for 1938-39. Included in the latter was £2,800 dividend declared by A. & Co., Ltd., on March 30, 1939—in respect of the years ended December 31, 1937, £800, and December 31, 1938, £2,000. No dividends had previously been paid, but on January 15, 1940, a dividend of £1,000 was paid to A. in respect of 1939.

	Rate 1936-37			1937-38			Rate 1938-39		
	£	s.	d.	£	s.	d.	£	s.	d.
£2,000	—	—	—	—	—	—	—	—	—
500	1s.	25	0 0	25	0 0	1s. 3d.	31	5	0
500	1s. 3d.	31	5 0	31	5 0	1s. 6d.	37	10	0
1,000	2s.	100	0 0	100	0 0	2s. 6d.	125	0	0
1,000	3s.	—	—	150	0 0	3s. 6d.	175	0	0
1,000	3s. 6d.	—	—	—	—	4s. 3d.	212	10	0
2,000	4s.	—	—	—	—	5s.	500	0	0
1,000	—	—	—	—	—	6s. 3d.	312	10	0
	156 5 0			306 5 0					
Add 10%	15 12 6			30 12 6					
	£171 17 6			£336 17 6			£1,393 15 0		
Accrued dividends :	1/4 of £800			3/4 of £2,000			3/4 of £2,000		
	= £200			= £1,100			+ 1/4 of £1,000		
							= £1,750		

Inclusion of £1,750 instead of £2,800 in the income of 1938-39, would reduce the income for sur-tax for that year by £1,050, that is £1,000 at 6s. 3d., and £50 at 5s., a total of £325, which is more than 5 per cent. on

£1,393 15s. less £325. Relief would be claimable as follows :—

Reduction 1938-39	...	£325	0	0
Less Increases—1936-37	£200			
at 3s.	...	£30	0	0
1937-38	£1,000			
at 3s. 6d.	...	175	0	0
£100 at 4s.		20	0	0
		225	0	0
10%		22	10	0
		247	10	0
Net relief	...	£77	10	0

reducing the sur-tax to £1,316 5s.

The 1939-40 liability would then have regard to accruals.

Alternatively, the Commissioners might think it just to give relief by regarding each dividend as income for the year of assessment in which the company's accounting year ends.

Section 35 gives relief where, in consequence of the sale or transfer to the taxpayer of any assets, his sur-tax exceeds by more than 10 per cent. the amount which would have been payable by him if the income from these assets and from any assets sold or transferred by him were deemed to have accrued from day to day. The relief is given by substituting the accrued income for the income received.

ILLUSTRATION

B. acquired from his deceased father's estate shares in B. & Co., Ltd. His title arose on July 1, 1938. On October 15, he received a dividend of £1,000 in respect of the year ended September 30, 1938. He sold the shares on January 31 after receiving an interim dividend of £500. The final dividend turned out to be £700. B.'s statutory total income for 1938-39, including these dividends, was £4,000. He had made no other sales or dispositions of assets. The relief would be as follows :—

	Sur-tax	£	s.	d.
	£2,000			
	500	1s. 3d.	31	5 0
	500	1s. 6d.	37	10 0
	1,000	2s. 6d.	125	0 0
	4,000		193	15 0
Deduct Dividends received	1,500			
	Reduction of liability			
	2,500	£1,500 — £650		
		= £850		
		£850 at 2s. 6d.	*106	5 0
Add Accrued dividends :				
July 1—Jan. 31				
1/4 of £1,000 + 1/4 of £1,200	...	650	Sur-tax payable	87 10 0

Amended total income ... £3,150

* Since this figure is more than 10 per cent. in excess of £87 10s., relief is due.

Section 33 is the corollary of Section 35, and empowers the Crown to assess by reference to the accruals basis where assets have been acquired and/or disposed of in similar circumstances, but with the result that the taxpayer's sur-tax liability is less by over 10

per cent. than if he had been assessed on accruing income. The Crown's hands are tied, however, in that their right only applies where the assets are (a) stocks or securities entitled to interest or dividends at a fixed rate only, not being stocks or securities the interest or dividend on which is dependent on the earnings of a company; and (b) any other stocks or securities and any shares, if the transactions therein have been effected otherwise than through a stock exchange in the United Kingdom and by a transfer on which stamp duty has been paid at the rate of 1 per cent. Moreover, the adjustment required by this Section is avoided if he proves that the avoidance of sur-tax was exceptional and not systematic, and that there was not in any of the three preceding years any similar avoidance. "Systematic" does not mean "planned or devised"; a person who has done something once cannot be said to have done it systematically. Avoidance in one year, even by a series of sales, is not within the Section (*Bilsland v. C.I.R.*, 1936, 20 Tax Cases, 446).

For the purposes of Sections 33, 34 and 35, income is to be deemed to accrue from day to day over the period for which it is stated to be payable, but if no period is stated, it is deemed to accrue over the twelve months preceding the date on which it was declared payable, or during the period from the last declaration of dividend (not being a dividend expressed to be an interim dividend in respect of a stated period), payment of interest, or other yield or produce of the asset, if this is less than a year (Section 36, Finance Act, 1937).

In the year of death, the liability to sur-tax is calculated at the rates for that year or for the preceding year, whichever rates are the lower (Section 26, Finance Act, 1930).

Finally, it is necessary to note the effect on sur-tax of the relief for diminution of earned income in 1939-40 provided by Section 11, Finance (No. 2) Act, 1939.

TAXATION NOTES

N.D.C.—Farmers

As there is no question of Schedule B applying to N.D.C., a farmer whose profits exceed £3,500 per annum (before deducting the allowance for remuneration) must produce accounts for N.D.C. purposes. Care must be taken not to omit to claim an allowance, as a deduction from the profits for N.D.C. purposes, for any loss which may have been made on the preceding six years. This point might easily be overlooked where no claims have been made under Schedule B, Rule 5, for assessment to income tax under Schedule D.

E.P.T.—Capital

In arriving at the average capital employed for E.P.T. purposes, profits and losses are, except so far as the contrary is shown, to be deemed to have

accrued at an even rate throughout the period. In general terms, the profits or losses for this purpose are those as adjusted for E.P.T. purposes. It is important to note, however, that some of the expenses, such as subscriptions, which have been disallowed, do not increase capital employed; they must therefore be deducted from profits or added to losses so as to arrive at the true increase or decrease in capital in respect of profits or losses. No alteration of the profit or loss is, of course, necessary in respect of capital expenditure disallowed in adjusting the profits.

Trading Stock in Hand

It is clear that only stock in the trader's possession at the accounting date can be included as stock in hand. Where goods are bought for future delivery and sold "forward," any portion of such goods not delivered to the company must be excluded. Similarly, where goods are bought c.i.f. or ex shop and sold while the cargoes are at sea (the bills of lading being in the name of the sellers) only goods the property in which has in law passed to the trader can be included in his stock (see *Benjamin Smith & Sons v. C.I.R.*, 139 L.T., 97; and the Irish Free State case of *J. W. Green & Co. v. C.I.R.*, 1927, I.R. 240).

Death Duties

Where it is necessary to ascertain a notional sum, whether in respect of capital or income, for the purposes of assessment to death duties, the calculation is normally made by reference to the average yield of trustee securities. This most frequently arises in connection with the estimate of the annual income to be received by the life tenant of residue, where legacy duty is to be calculated on the capitalised value of an annuity equal to the annual income; the income on the uninvested cash being based on the average yield above mentioned. It appears that 4½ per cent. has been adopted as the yield in recent cases.

Remissions on Death Duties for War Service

With reference to the article on "Taxation and War Service" in the January issue, readers will be interested in the table given in the 1939 cumulative supplement to the eighth edition of Dymond's "Death Duties" (Solicitors' Law Stationery Society, 2s. 6d. net), showing the proportion of the death duty to be remitted at each age from 15 to 69.

Income Tax and Pension Funds

The following is an extract from a letter issued to its members by the Association of Superannuation and Pension Funds:—

It will be necessary for trustees of approved funds to account for income tax at the rate of 1s. 9d. in the £ (one-fourth standard rate) on such sums as they refund (with interest, if any) to employees during the fiscal year 1939-40.

Where funds deduct from refunds and commutations

a sum equal to the income tax liability, the Inland Revenue require tax only on the net, or actual, amounts paid to contributors, and the following comparative statement explains the positions:—

	£	s.	d.	£	s.	d.
Standard rate of tax ...	0	5	6	0	7	0
Correct fraction and (rate in the £) ... $\frac{1}{4}$...	(1	3½		(1	7½	
Assume a gross refund of ...	5	0	0	5	0	0
Deduct therefrom under the rules of the fund, to meet income tax liability (1/3½)	6	5	(1/7½)	8	0	
Refund to contributor ...	4	13	7	4	12	0
Amount of refund on which tax is payable ...	4	13	7	4	12	0
Tax at one-fourth standard rate in accordance with Regulation No. 8 (1/4½)	6	5	(1/9)	8	0	

Until the Finance (No. 2) Act, 1939, was passed in October last, funds were working on a standard rate of 5s. 6d. in the £; consequently, in the earlier part of the year 1939-40, they were, as will be seen from the foregoing statement, under-deducting to the extent of 4d. in the £.

It is a matter for the trustees of funds to decide whether they will seek to adjust the deductions by recovering the amount of the difference from the individuals concerned, or whether the fund as a whole shall bear the under-deductions.

Payment of Schedule A Tax by Instalments.—An error was unfortunately allowed to pass in the note given on page 90 of last month's issue. The deduction from the income tax recoverable from the landlord should have been £75, not £100, in the second part of the example and the two instalments of tax should, therefore, be £85 10 0 and £30 0 0.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

Income Tax—Succession—Subsidiary manufacturing companies—Parent acquiring businesses of manufacturing companies—Income Tax Act, 1918, Schedule D, Cases I and II, Rule 11 (2), Finance Act, 1926, Section 32 (2).

The case of *Briton Ferry Steel Co., Ltd.*, reported in our issue of January, 1939, came before the Court of Appeal on December 7 last ((1940), T.R. 37), when the judgment of Macnaghten, J., was affirmed. Leave to appeal to the Lords was refused.

The facts are to be compared with those in *Laycock v. Freeman, Hardy & Willis, Ltd.* (1939, 2 K.B.1). There, the principal company was entirely a retailing company; and it was held that when it took over the manufacturing itself and wound up its manufacturing subsidiaries the trade of manufacturing for sale by wholesale had ceased. The present case was one of an industry in three stages, the manufacturing of steel bars, their conversion into blackplate and tinplate, and, finally, the sale of the latter. The circumstances were set out fully in the report in our January, 1939, issue.

The judgment of the Master of the Rolls in favour of the Crown is important both in declaration of principles and in practical guidance in the artificial problem of splitting for tax purposes what is in fact one business into two parts, a continuing business of making steel bars assessable by reference to the preceding year's profits, and a business of converting those bars into blackplate and tinplate to be dealt with as a new business. He said that in amalgamations there were two extremes. At the one end there was no doubt as to the continuance of identity of the acquired business. At the other no reasonable person could say that the acquisition was continued in identifiable form. Whether a case fell within either

of these types was in his view a question of law. In between was an area of fact for the Commissioners. The appellants had urged that if succession were found, the artificial separation of results must go on indefinitely; but he held that the period ended when the new business rules ceased to be relevant. As to the cost of the steel bars, there must be no notional profit upon their manufacture. Actual cost, including a proper proportion of overheads, was to be the criterion. Whilst, however, laying down this rule—which is, of course, in conformity with the principle that a person cannot make a profit out of himself—he indicated that the parties might agree between themselves to a more rough and ready method of arriving at a satisfactory and just result.

An important minor point of principle arose in respect of scrap metal; and it was held that the fact of a subsidiary part of a business having ceased did not affect the question of succession.

In the present case, the business of the subsidiary companies had clearly not ceased although, if the whole output had been taken by them, this would seem to have been arguable in the case of the steel company. The possibility of such questions arising in the future was contemplated in the judgment; and the opinion may be expressed that the present law as to amalgamations and divisions is artificial to the point of absurdity.

Income Tax—Judgment—Whether leave to proceed to execution necessary—Income Tax Act, 1918, Section 169—Courts (Emergency Powers) Act, 1939, Section 1 (1).

In *Attorney-General v. Hancock* (K.B.D., December 19, 1939), the question was whether if the Crown has obtained judgment for arrears of income tax it is

necessary for it to apply for leave to proceed under the Courts (Emergency Powers) Act, 1939. Wrottesley, J., in an interesting judgment, held that the Act does not bind the Crown. ((1940) T.R. 55).

The case was one stated by consent, the Crown bearing the costs. The Attorney-General claimed that the Act in question does not bind the Crown in accordance with the old rule that it is not bound by an Act unless specially named therein. Wrottesley, J., was apparently not prepared to accept this doctrine in its absolute entirety; there was the exception where it was shown that the Crown was to be affected by necessary implication from the language of the statute. He found, however, that there was a clear rule that if an Act of Parliament would otherwise divest the Crown of its property, its rights, its interests or its prerogative, then it is not to be construed as applying to the Crown unless it is specifically mentioned therein.

Reference was made in the case to the fact that the Act of 1869, abolishing imprisonment for debt, does not bind the Crown; and if readers will refer to Section 165 of the Income Tax Act, 1918, with the Warrant in the Sixth Schedule, Form 9, they will see that the General Commissioners have powers to commit a defaulter to prison with no power to release him except on payment or security. There is at least one departmental legend of an unhappy defaulter having been so committed *and then forgotten*.

Income tax—Residuary estate—Annuities—Whether gross or net—Whether direction in codicil operated before gift in will—Payments out of capital to supplement income—Excess payments—Whether recoverable by trustees—Tax repayments to annuitants—Whether payable to trustees.

In *Rowan's Trustees v. Rowan* (Court of Session, November 2, 1939 (1940) T.R. 91), the Court had to decide upon a number of issues. (1) A testator had directed his trustees to pay to K "free from government duties and expense" the "free annual income and produce" of the residue of his means and estate. In the event of this being less than £1,000, K could call upon the trustees to pay the deficiency out of capital. The question was whether the £1,000 was to be regarded as a gross amount or net, after deduction of tax at the standard rate. By a majority, the Court held that the payment should be gross. (2) The trustees, on advice of counsel, having made payments to K upon the footing that the £1,000 was a net figure, it was held that, following *Hunter's Trustees v. Hunter* ((1894), 21 R. (Court of Session) 949), the excess was irrecoverable from K. (3) By a codicil to his will, testator made supplementary provision for J and I who were entitled to the free annual income of the residue of the estate of testator's brother. If the amount of such income were in any year less than £240, the testator's trustees were to pay to J and I the difference

between "the amount of the free income they actually received" in any year and £240. The Court, by a majority, held that the words "actually received" implied a net amount after deduction of tax, the Lord President contrasting the words with "as if that sum had been actually paid" in Rule 19 (1), and finding a distinction between "payment" and "actual payment." (4) There being a question whether the provision in the codicil for J and I took priority of the provision for K in the will, the Court held that it did. (5) On the question whether, in so far as the payments to J and I were to be net, the trustees were entitled to any portion of the tax recoverable from the Revenue, it was held that the codicil did not contain anything which could be regarded as an instruction to that effect. *Jones v. Jones* ((1933), Ch. 842), and *Richmond's Trustees v. Richmond* ((1935), S.C.585) were followed; *Milne's Trustees v. Gall* ((1936), S.C.706) and *In re Maclellan* ((1939), 1 Ch. 750) were distinguished.

The distinction in (3) seems a very fine one. With regard to (5), whilst the rule in *In re Pettit* ((1922), 2 Ch. 765) will operate wherever there is a direction that the annuity is to be "free of tax," where a different wording is used the rights of the trustees to income tax reliefs will depend upon the strict legal interpretation of the actual words of the testator. In the words of the present Master of the Rolls in the *Maclellan* case, quoted by the Lord President, "what we have to do is to examine the precise language of the document, and place upon it the proper construction in relation to the subject matter with which it deals."

Income Tax, Schedule B—Rule 8, Gardens for the sale of the produce—Mixed farm—Part fruit and vegetables—Part ordinary husbandry—Basis of Assessment.

The case of *Bomford v. Osborne* ((1940), T.R. 63), a test case supported by the Farmers' Union, was reported in our issue of September, 1939. In the Court of Appeal, December 20, 1939, the judgment of Lawrence, J., reluctantly following the Scottish case of *David Lowe & Sons v. C.I.R.* ((1938), 21 T.C. 597), was affirmed by a majority, except that the reference back to the Commissioners upon one point was discharged. Scott, L.J., gave a dissenting judgment.

The case will, no doubt, go to the Lords, and may settle a number of questions as to the scope of Rule 8 which have been unsettled for very many years, e.g., before the Departmental Committee on Fruit Culture of 1904 official evidence was given that out of 236,000 acres under fruit, only 4,749 were assessed under the Rule, and that in the Maidstone "mixed farm" area there was not then a single assessment. The "mixed farm" problem has several aspects; whilst other factors are the nature of the crops and methods of cultivation.

Clauson, L.J., failed to find any clear principle in the *Lowe* case, but did find one in *Dennis v. Hick* ((1935), 19 T.C. 219). If the whole area was not occupied as "gardens," was any part so occupied? And, if the answer was in the affirmative, then "splitting" was justified. The matter was a question of fact and degree, as set out in *Dennis v. Hick*. Analysing the Commissioners' decision, he found that they had applied the right tests, and their conclusion was, therefore, not open to legal objection.

Goddard, L.J., in a separate judgment, agreed that splitting was permissible; but went so far as to say that had the Commissioners held that the whole area was assessable as a farm under Rule 1 or as a garden

under Rule 8, to interfere with their decision would be contrary to the House of Lords' decision in *Monro and Copley v. Bailey* ((1933), 17 T.C. 607).

Scott, L.J., in his long, informative, and dissenting judgment, summarised his views under five heads, which, although too long for recapitulation, will, no doubt, receive full consideration in "another place."

The really important question at issue is one of equality of taxation within the same field. To-day, as in the past, one body of Commissioners, on the evidence before them, will be consistently "finding facts" where another body, in a different area, upon the same kind of evidence, are, with equal consistency, unable to find such facts.

Legal Notes

EXECUTORSHIP LAW AND TRUSTS

Will—Forfeiture—Perpetuities Rule.

Where under a will a fund is to be divided into separate shares at a fixed time, then provided the time is not too remote under the rule against perpetuities, each share is treated separately. The limitation of each share is effective if the dispositions of that share do not offend the perpetuities rule; validity of that share is not prejudiced by the invalidity of the gift of another share. This principle was applied in the recent case of *Re Morrison's Will Trusts, Walsingham v. Blathway* (1939, 4 All E.R. 332). The testatrix left £5,000 to A for life, with a gift over for all or any of A's children who should attain 21. The following condition was attached: "If either during my lifetime or after my death any legatee shall become a Roman Catholic, then as from the occurrence of such event such legatee shall forfeit all benefits." A, who became a Roman Catholic, had a daughter B, who also became a Roman Catholic, and two sons, C and D, who did not. The argument that the sons were not affected was rejected. The substantial question was the perpetuity one. Bennett, J., decided that the forfeiture clause was not void in its entirety. Thus a valid condition had been broken, and the interests of A, B, C and D were forfeited on the date A was received into the Roman Catholic Church.

INSOLVENCY

Bankruptcy—Pigs bought at auction—Purchase price provided by auctioneers as prearranged—Property in pigs passed to purchaser and formed part of assets in his bankruptcy—Sale of Goods Act, 1893, Section 17.

In *re Capon* (1939, W.N. 415) the Divisional Court (Bankruptcy), reversing the Ipswich County Court Judge, decided that certain property was part of the assets in the purchaser's bankruptcy in the unusual circumstances of the case. The bankrupt had for several years habitually bought pigs from two firms of auctioneers (the respondents), although he was

not in a position to pay for them. The arrangement was that he received a bought note in the ordinary form for pigs knocked down to him, and the respondents provided the purchase money. Before taking them away, he would sign a note addressed to the auctioneers, acknowledging the pigs and agreeing to feed and tend them. The note continued: "I acknowledge that these pigs are their property and may be removed by them at any time." In due course the bankrupt would resell the pigs and out of the proceeds he would repay the money advanced to him by the respondents. The resales were usually at auctions conducted by the respondents, on which they received commission. On February 24, 1938, the bankrupt executed a deed of assignment; a receiving order was made against him on March 14, 1938, and on March 18, 1938, he was adjudicated bankrupt. Immediately before his deed of assignment he had 600 pigs on his farm; the respondents, without the bankrupt's consent, forcibly entered his farm and removed the pigs, which they sold.

The Court held that the County Court Judge had misconceived Section 17 (1) of the Sale of Goods Act, which provides that property shall be transferred at such time as the parties to the contract intend. But the contract referred to in the Section was the contract for sale between vendor and purchaser. The original vendors were ignorant of the arrangement between the bankrupt and the respondents; they contracted only with the bankrupt and clearly intended that the property should pass to him. As between them and the bankrupt, as a result of the auctions, the property passed to him. If he was in fact the respondents' agent, he might have acquired it as trustee for them. The Court held, however, that the arrangements with the respondents did not constitute the bankrupt their agent, but were intended to give them a charge on the pigs to secure the money advanced to the bankrupt. Such a charge, not being registered as a bill

of sale, was invalid as against the trustee. The pigs were the property of the bankrupt and part of the assets in the bankruptcy. The respondents were not entitled to seize them and must account for the proceeds of sale.

Deed of Assignment by two partners—One partner continued to manage farm—Contract of service with trustee—Workmen's Compensation.

In *Easdown v. Cobb* (1940 1 All E.R. 49) the House of Lords, reversing the Court of Appeal, decided a case affecting both trustees under deeds of assignment and partners who carry on the firm's business after a deed has been executed. The applicant and his brother farmed in partnership. At a meeting of creditors on August 12, 1937, it was proposed that the applicant be employed as manager at a salary to be decided by the committee of inspection. On August 16, 1937, the brothers executed a deed of assignment which was sent to the trustee under the deed. The brothers, and also farm workers previously employed by them, continued to work on the farm, the applicant in the capacity of manager at a weekly wage of £2 12s. and on September 24 a letter written by the firm of estate agents of which the trustee was a member confirmed the payment of this wage. On August 19 the applicant was seriously injured whilst at work on the farm. Thereafter, though incapacitated from working on the farm, he prepared the farm's accounts and performed other managerial duties. He brought proceedings against the trustee under the Workmen's Compensation Act, 1925. The County Court Judge held that he was the trustee's servant and awarded him compensation. But the Court of Appeal overruled that decision on the ground that there was no evidence of a contract of service on the day of the accident. The House of Lords restored the finding of the County Court Judge. In the words of Lord Atkin: "The farm had to be run by servants and a manager, for the trustee was not managing it himself. The fact that he agreed to the appellant's weekly salary is ample evidence that he intended the appellant should be employed by him as from August 16; the fact that the actual agreement was subsequent, namely, on September 24, is immaterial."

Deed of Arrangement—Personal liability of trustee.

The recent case of *Hunt Brothers (a Firm) v. Colwell* (1939, 4 All E.R. 406) illustrates the importance of the use of express words by a trustee to indicate that recourse is to be had only to the funds which he holds in that capacity. In the absence of such clear indication he incurs personal liability. The defendant in the case, a Chartered Accountant, was the trustee under a deed of assignment executed by a builder. In order to complete houses forming part of the estate, the trustee ordered building materials from the plaintiffs, and described himself as "trustee." Slessor, L.J., reviewed the previous authorities, which establish that the mere addition of the word

"trustee" is not sufficient to limit liability. In the present case the trustee contended that the legal position was altered because the plaintiffs were creditors of the estate and took part in the trustee's appointment; that argument was rejected by the Court of Appeal, who held that there was no evidence that the plaintiffs did not look to Colwell for payment or that the trustee had limited his personal liability.

MISCELLANEOUS

Auditors—Commission on sale of property—Duties of directors of private companies.

A curious case recently decided by the Court of Appeal (who gave leave to appeal to the House of Lords) was *Cooper v. Luxor (Eastbourne), Ltd.* (1939, 4 All E.R. 411). The defendant companies, wishing to dispose of two cinemas, agreed to pay the plaintiff a commission for the introduction of a suitable purchaser. On such introduction, however, the companies refused to proceed, preferring to effect the transaction by the sale of shares rather than the sale of the property. They also contended that an arrangement which had been made by the plaintiff whereby he was to share his commission with an auditor of the companies was illegal, being undisclosed to the companies, and that the plaintiff's contract was therefore unenforceable. The companies were private companies, with the same directors in each, and they employed the same auditor. He had first been approached and promised a commission if he could obtain a satisfactory offer for the cinemas. The auditor then got in touch with the plaintiff, who was a friend of his and was interested in cinemas. The plaintiff had agreed that the auditor should receive a share of the commission.

The Court of Appeal, overruling Branson, J., held that the plaintiff was entitled to £8,000 for damages for breach of contract, as there was no just excuse for the companies' refusal to complete the sale. As regards the auditor, they held that the work which he did in securing the sale had nothing to do with his work as auditor and did not affect the transaction sued upon. Scott, L.J., said: "I can see no reason why an honest auditor should not accept such an employment as was offered to him here." MacKinnon, L.J., said: "An auditor, *qua* auditor, owes certain duties to the company, but to suggest that the company cannot employ him to do a service for them quite outside his duties as auditor seems to me unfounded."

Scott, L.J., gave a salutary warning to directors of private companies, that "in law the company is an entirely separate person. It has a right to their single-eyed service, and they must not ignore the Companies Act in order to further their private interests. The public policy upon which the privilege of limited liability is given to companies, private as well as public, is that the directors shall observe the trust Parliament has reposed in them. It is the chief protection of creditors."

MUNICIPAL

The Forthcoming Local Budgets

In September local authorities were compelled to embark upon new expenditure of unknown magnitude. The proportion of this expenditure to be borne by the local rates was not known, nor is it yet precisely ascertained. When at the end of September the question of the rate for the half-year to March 31 fell to be considered by those authorities which levy a half-yearly rate, in practically all cases no alterations were made. This was because of inability to estimate even approximately the aggregate expenditure, lack of information on the sharing of the burden between local authorities and the central government, and, lastly, pre-occupation with the immediate tasks of civil defence. Now the position must be examined and within the next month or so the rate for the period commencing on April 1 must be fixed.

The continual expansion of local authorities' expenditure was responsible for much heart-searching before the war. Statistics were produced emphasising the staggering growth in local, as in national, expenditure. For example, two illuminating papers were read before the Royal Statistical Society by Sir Gwilym Gibbon and the early part of Dr. Sykes' book, "A Study in English Local Government Finance" was almost wholly taken up with stating and explaining the mounting expenditure. The present scale of war spending by the Government must not induce the belief that the comparatively small scale of local finances in any individual area makes them worthy of scant attention. It is notable, nevertheless, that very little of the criticism of local government expenditure is of a constructive nature. It behoves each local authority to examine its finances critically. This is not an easy task.

The uncertainties concerning the relationship of the Exchequer and local authorities have not been resolved. Certain general principles have been laid down, it is true, but in the absence of detailed instructions it is difficult for the individual local authority to see exactly how it will be affected. This may be seen in connection with the rule that no grant will be allowed on the wages of permanent employees. What are permanent employees for this purpose? Is the rule to be interpreted in such a way that local authorities, which have been in the habit of doing constructional and repair work by direct labour and now turn over these workmen to civil defence jobs, are to be in a worse position than those which have hitherto proceeded by contract, and thus maintain smaller staffs? Similar anxieties are felt about the interpretation of the statement that the Government will meet the "additional expense"—this having been laid down as the guiding principle for

some classes of expenditure. While the broad principle is clear, in the absence of detailed regulations it is difficult to gauge its precise working in any particular cases. There are also various uncertainties surrounding the questions of hospitals, air ports and abattoirs, and numerous other matters. Moreover, some county districts are stated to be in doubt on the attitude of the county council to various items of expenditure incurred on behalf of the county without specific instructions. The position should be clarified at the earliest date. Representations will need to be made to the Government departments by the associations of local authorities on various points, for example, whether local authorities will receive any recompense for the loss of income on baths or market vaults which have been appropriated for civil defence purposes.

But local authorities cannot wait for the clarification, they must proceed with their budgets. Should they take the most pessimistic view of the situation? If they do, they may budget for more expenditure than would eventually materialise; local rates might rise unjustifiably. It is suggested, therefore, that they should assume that a reasonable degree of Government assistance will be forthcoming. If it should turn out otherwise, the deficiency must be recouped in a subsequent rate.

Because of the complexity of the situation many local authorities have commenced their budgets earlier than usual. Certain preliminary work should be in hand in any case; for instance, where expenditure for which there should have been a specific authority was incurred without authority because of its urgency, retrospective sanctions should at once be sought. It is also desirable that minor questions should be settled. Thus many local authorities have lent premises and staff to food control committees. The terms of such transactions can now be settled with the Ministry of Food. An early ascertainment of approximate requirements will give time for the consideration of such questions of policy as whether the construction of trenches should be financed from loan or from revenue.

On the rate income side, too, an early estimate should be made and a settlement, if only tentative, should be attempted where the Government departments are involved. For instance, local authorities with hotels requisitioned by the Government for civil servants should have some notion of the basis upon which the Government will make the contribution in lieu of rates.

The position of trading undertakings should also be examined. Many authorities, relying on relief from these undertakings, will be faced with the necessity

for increasing charges if such reliefs are to continue. Resorts may not find civil servants as profitable contributors to their entertainment undertakings as the visitors they displace.

It is not difficult to forecast the result of the aggregation of the requirements of the various services: either the rate must be raised to pay the local authorities' share of the civil defence services, or else corresponding reductions must be made in other services. In cases where the rate income is expected to fall appreciably the reductions in other services will, other things being equal, need to exceed the additional expenditure for civil defence purposes. In vulnerable areas civil defence may amount to as much as a shilling in the £, notwithstanding the fact that the Government are bearing the lion's share. It is interesting to read that in London out of an estimated expenditure of £6,000,000 per annum the share of the Government is given as £5,700,000. The further savings now mooted for the civil defence services will give relief to the Exchequer rather than to the local authorities. It is therefore prudent for local authorities to assume that, generally speaking, their share of the cost of civil defence services is not likely to diminish in the near future.

Capital expenditure, unless in regard to matters of pressing necessity, is not now in the national interest and loan sanctions will not be forthcoming. Doubtless local authorities will also refrain from indulging in expansions of services. Internal capital funds should be conserved. Administrative expenditure should be carefully scrutinised and savings made wherever possible. Redundant staff can usually be transferred to civil defence work. Care should be taken to see that the principles of economical administration are

applied to civil defence; it is so easy to overlook wasteful methods on the defence services. Hence in compiling their budgets local authorities should see that excessive allowances are not made in such matters as petrol supplies. The necessity for a close watch on the details of civil defence expenditure is illustrated by a recent report of the Finance Committee of the City of Birmingham, wherein it was stated that meal allowances to members of the A.F.S. are estimated to amount to £50,000 a year, while routine telephone calls from wardens' posts cost £10,000 a year.

It is customary for a provision to be made for contingencies. In peace-time the amount needed for contingencies will, taking the authority as a whole, usually vary little from year to year. The question arises whether under the present circumstances the contingency provision should include a sum to cover expense which might arise from aerial bombardment. It is suggested that such a provision is not desirable. Should such occasions arise local authorities usually have working balances from which the amounts could be paid pending the levying of the necessary rate. In any case the major portion of such expense will probably fall on the Government. Local authorities which usually levy an annual rate might perhaps consider whether it is not more desirable under present circumstances to levy a half-yearly rate, thus enabling the authority to vary the rate poundage during the second half of the year should this be warranted. Such a variation, which is unpopular with ratepayers and administratively inconvenient, would be avoided unless absolutely necessary.

FINANCE

The Month in the City

Two per Cent. for Five Years

For the City, the outstanding event of the month has been the conversion scheme announced for the Conversion 4½ per cent. stock maturing on July 1. The terms of the conversion offer were obviously designed to exert the maximum downward pressure on the level of interest rates prior to the first major borrowing of the war, which has still to come.

Holders were given the option of exchanging into a five-year stock bearing interest at no more than 2 per cent., or alternatively of applying for repayment in cash. Since the bulk of the stock is held by financial institutions, who have no further choice but to leave money idle or invest it in gilt-edged securities, the more stock is converted for cash the greater will be the amount of liquid funds seeking investment in short-dated securities and the smaller the volume of stock available to meet that demand. In theory the new stock should open automatically at par, since any holder expecting a discount would opt for cash. In practice, however, holders are likely to be diffident about demanding cash, in view

of the Chancellor's appeal that they should take up the new stock, and this being so may be prepared to see the stock fall below par. Thus the first effect of the Chancellor's appeal will actually be to lessen the force of the conversion offer as a means of forcing down short-term yields, though in compensation it should, of course, ensure a larger volume of conversion into stock. One special case is that of the discount market, whose decision must be influenced largely by the profit obtainable by running the stock against money borrowed at short term from the banks. Since the return on the stock is so low, a reduction in call loan rates from the present level of 1½ per cent. is expected, though it is realised that in view of the banks' higher expenses, this may only prove possible if Bank rate is reduced. It is important for the success of the conversion that the money houses should convert on a substantial scale, for cash repayments to discount market firms (in contrast with other holders) would not remain in the gilt-edged market to help in raising the general price level, but would be used

in repayment of the call loans by which the holdings were financed.

Strong Rise in Gilt-edged

As was to be expected, the Conversion announcement brought a strong all-round upward movement in gilt-edged, which had been somewhat reactionary after a good rise in the opening days of the year. On the month, as will be seen from the table below, War Loan is higher by more than 5 points, and is thus within striking distance of the par level which is expected to be achieved in the near future. The downward adjustment of yields has been sufficient to send the Defence 2½ per cent. bonds above par, and thus to establish the position of this stock as a money market short by advancing the theoretical redemption date from 1948 to 1944. Home rail prior charges have advanced in sympathy with gilt-edged, while the marginal rail stocks have been strong on expectations of favourable compensation terms. Industrials generally have been stagnant throughout the month, while commodity shares have been depressed by the temporary setback to rubber (partly in sympathy with the slump in cotton after the previous wild boom), and by the sharp decline in tin to little more than the former maximum price. The raising of the domestic maximum for copper, lead and spelter has not benefited the shares of the producing companies, whose position, it is believed, is fixed by long-term contracts entered into with the Government.

	1940	1939	
	Jan. 25	Dec. 28	Change
War Loan	98½	93½	+ 5½
Defence 2½ per cent.	101½	98½	+ 3
Brazil Funding "A"	27	25	+ 2
G.W. Ordinary ...	40	37	+ 3
E.M.I.	8/6	7/9	+ 9d.
Courtauld	36/-	37/6	- 1/6
B.A.T.	5	4 11/16	+ 5/16
Anglo-Dutch Rubber	25/-	27/3	- 2/3
Stewart & Lloyd ...	44/3	44/3	—
P. & O. Deferred ...	19/6	21/3	- 1/9
Rho.-Anglo	19/6	20/4½	- 10½d.
Malayan Tin	36/-	39/-	- 3/-
W. Wits	3½	3	+ ½

Revenue Pouring In

At the end of December the accumulated deficit for the first nine months of the financial year (including Defence borrowing) amounted to £641 million. To realise Sir John Simon's estimate of a final revenue deficiency of £938 million would thus have required an average weekly deficit of £23 million throughout the current quarter. Instead, the two weeks to January 20 actually showed a combined revenue surplus of as much as £21.6 million. In these days a revenue surplus is not an unmixed cause for rejoicing if it results partly from a low level of expenditure, which may mean that our war effort is not expanding as rapidly towards its maximum as one would wish. To some extent this has unfortunately been the case, for the level of expenditure has shown no further increase since the turn of the year.

Fortunately, the good showing has been due at least as much to the buoyancy of the revenue, and particularly of the income-tax. At the turn of the year, income-tax receipts showed an increase to date of only

£8.4 million. In the first three weeks of 1940, with the higher standard rate in force and the public responding readily to the Chancellor's appeal for early payment, receipts exceeded those in the corresponding period of 1939 by £22.5 million. By January 20, therefore, this tax had already realised £30.9 million of the £54.1 million increase budgeted for the full year. Receipts to date, at £184.6 million, represented 47 per cent. of the estimated yield for the year, as compared with receipts in hand of 45.5 per cent. of the final revenue a year earlier. Total ordinary revenue collected was £684.9 million, an expansion of £84.5 million, or more than the estimated increase for the entire year. In addition to these satisfactory revenue receipts, a steady flow of subscriptions continues to the new Savings Certificates and Defence Bonds for the small investor. In the first eight weeks of the Savings Campaign total subscriptions amounted to £61.8 million, and apart from the actual holiday period receipts have been maintained at about £6.5 million a week since December 12, when the initial rush of subscriptions had subsided.

Municipal Conversions

The authorities continue to display their intention to keep municipal borrowing under the strictest possible control. It was announced some time ago that facilities for the renewal of maturing obligations could only be extended up to June 30, when the position would be reviewed afresh, a statement which ominously suggested that municipalities might in some cases be expected to redeem maturing loans out of current revenue. During the past month a further step has been taken with the instruction to the local authorities concerned that they are not to proceed with the conversion of loans having optional redemption dates, of which the earliest falls in the current year. This would seem to be carrying control to absurd lengths.

It is true that some demand may be involved on the capital market even by purely conversion operations. If the new stock is under-subscribed, the underwriters must find cash to pay out a portion of the holders. Even if the whole of the replacement stock is taken up, but not in all cases by the previous holders, the new subscribers have parted with cash which they would otherwise have held for subscription to Government loans. It is clear that even such apparently innocuous operations compete with the Government for funds to some extent, but the amounts are so small by comparison with the prospective defence borrowings that it seems inequitable to place a special burden on the ratepayers of particular municipalities by denying them so completely access to ordinary financial facilities. The Treasury answer, no doubt, would be that the local authorities will ultimately be compensated for the continuance of interest payments at the higher rate by the better terms obtainable once the authorities have reduced interest rates all round in preparation for their own borrowing. Two 6 per cent. loans with optional redemption 1940-60 (Kent County and Middlesex County) would in the ordinary course be called for redemption on June 1. Prices have already been marked down in anticipation of conversion at the earliest date, and if notice is in fact deferred the loans would offer specially attractive yields as shorts of indefinite life.

Points from Published Accounts

War Compensation and Accounts.—As these words are written, it seems more probable that the accounts of the four railway companies for 1939 may not be unduly delayed, for the railways and the Government are on the point of reaching agreement on the financial arrangements of the companies under official war-time control. Railway accounts and dividends follow a regular time-table, and its disturbance would mean great hardship to many small investors. As an example of the kind of delay which is already arising, the case of Charles Brown Holdings, Ltd., might be cited. On September 4 the company's subsidiary, Charles Brown & Co., Ltd., came under the control of the Ministry of Food. But in their report dated January 19, 1940, the directors have to record that no agreement has yet been reached with the Ministry regarding the basis of remunerating the subsidiary from the outbreak of the war. It was, perhaps, fortunate that the operating company's financial year was due to end on September 30 last, for this has enabled the directors to draw up accounts for the period October 1, 1938, to September 3, 1939. But it has still been impossible to arrive at any precise profit, because compensation for requisitioned stocks remains undetermined. For the latest accounts of Charles Brown Holdings, Ltd., no serious problem has, fortunately, been involved. The company has merely brought in dividends received from the operating subsidiary during the year, and these are covered by the usual statement under Section 126. But other companies whose businesses have been taken over may well be less fortunate, particularly if the war found them mid-way through a financial year.

Holdings in Subsidiaries.—A more uniform treatment of interests in subsidiary companies in the accounts of holding companies seems to merit consideration. As examples of the points involved, one may draw upon the latest reports of two footwear companies, L. & J. Weber and William Timpson, Ltd. The former (which, incidentally, retains the archaic balance-sheet presentation "To" capital and liabilities and "By" assets) sets out shares in a subsidiary company totalling £97,950, together with "Investments at Cost," which include, in addition, holdings in 2½ per cent. Consols and War Loan, separately specified, and a small amount for quoted shares, making a joint total of £125,531. At the same time, the amount of £12,049 due from the subsidiary is combined with sundry debtors and bills receivable, to make a total of £25,268. The financing of a subsidiary company by capital investment or advances depends largely upon the policy of the directors of the holding company. In a large number of cases, there is little essential difference in fixity and liquidity between shares in subsidiaries and advances to subsidiaries. The latter could be frequently capitalised without affecting the true position in any way. The William Timpson balance sheet, which is a model of effective display,

also gives a general total for investments, including trade investments and other securities. But the holdings in its subsidiary company are more clearly displayed and differentiated. By statute a company must distinguish between the amounts of fixed and floating assets, and secondly, the assets held in subsidiaries must be separately set out, distinguishing shares and indebtedness. But these requirements could still be observed if all interests in subsidiaries were treated as a self-contained section in holding company balance sheets. The point is at least of sufficient importance to merit careful consideration at that distant day when the 1929 Act comes up for revision.

Investment Trust Accounting.—The general principles governing the computation of profits of investment trusts, in relation to the value of the investments which they hold, have long been explicit. An investment trust is not obliged, before striking distributable profits, to provide for any depreciation on its security holdings which may exist at the date of the balance sheet, since for investment trusts these holdings do not rank under the general definition of floating assets. This position makes it the more necessary that shareholders should be provided with the fullest information, wherever possible, of the value of the investments. The war has caused a number of investment trusts to change their practice in this respect. For example, the latest report of the Debenture Corporation states that, in the circumstances now prevailing, it is not possible to submit a reliable valuation of the investments, which stand in the balance sheet at more than £3½ million, at cost. Not every trust company, however, has experienced similar difficulties of valuation. Thus, the Law Debenture Corporation has made the usual investment valuation (as at December 31 last), which discloses a surplus over the balance sheet figures. Similarly, the directors of Second Scottish United Investors publish a valuation, as at December 15, 1939, which shows that investments valued at £1,426,515 in the balance sheet were then worth £1,012,400. As far as possible—and numerous trusts are clearly still finding it possible—the continued publication of the market value of investments, even though it is depressed, is clearly desirable.

Speedy Accounting.—An interesting study might be made of the speed with which accounts can be prepared and placed in the hands of shareholders. The balance sheet and report of F. W. Woolworth & Company, Limited, as at December 31, 1939, was in the hands of shareholders only 12 days after the close of the financial year. This provides a marked contrast with the publication of the accounts and the report by some other companies. For example, the Hawker Siddeley Aircraft report, for the year to July 31, 1939, was not available until January 13 last. The Woolworth achievement shows what can be done in the case of a

highly controlled cash business, whose accounting has been made as efficient as that of a bank. The time-lag in the case of Hawker Siddeley is almost certainly due to the leisurely manner in which contract terms for Government work are settled, rather than to the company's accounting organisation. A sample of over 2,000 company reports shows that there is an average time-lag of the order of four months between the termination of accounting years and the publication of company results. Obviously, an unduly long interval destroys much of the value of a balance sheet, particularly as a guide to the company's current position. For example, the Hawker Siddeley balance sheet shows cash holdings amounting to £1,425,012 as at July 31 last year, while the corresponding cash total in the group balance sheet is £2,058,917. But the expansion of the organisation has been so rapid that these cash totals can hardly apply to the position to-day. Cash, money claims and easily valued stocks must always be the simplest things to account, as the Woolworth report shows. But if the Defence departments were readier to reach final contract terms with their suppliers, they would, incidentally, assist accountants and shareholders.

LETTER TO THE EDITOR

Women Audit Clerks

DEAR SIR,—I was much interested in the first paragraph of Mr. Back's article on "Auditing in War-time" in the January issue of ACCOUNTANCY, in which he refers to the employment of trained female audit staff.

The question of prejudice against women is, I think, and hope, dead in the profession. What, then, are the reasons that lead Mr. Back to make the statement that "probably most accountants of experience would doubt the advisability of their inclusion in audit staff to any great extent"? The information that I have seems to indicate that most women audit clerks, both qualified and unqualified, are thoroughly competent and have the full confidence of their principals on the one side, and on the other that the client who objects to their presence is a rarity.

One is tempted, therefore, to wonder whether the phrase, "accountants of experience," refers to experience gained during the last war. If this should be so, I should like to suggest that the women audit clerks of to-day should not be judged on the basis of such experience as conditions are not comparable in a number of ways, *e.g.*, improvement in the standard of education; the entry of women into business and the professions has become the normal practice; and the status of the profession is now such that it attracts very few entrants—whether with the intention of qualifying or not—not of the best type.

I am particularly interested in the question from the point of view of the prospects for women audit clerks and I hope that a number of members will express their comments on this subject, which is likely to be of increasing importance in the immediate future.

Yours faithfully,

S. G. LANGE.

London.

January 9, 1940.

PUBLIC AUDITORS

Under the Friendly and Industrial and Provident Societies Acts

The Lords Commissioners of His Majesty's Treasury have appointed the following Incorporated Accountants as Public Auditors for Great Britain for the year ending December 31, 1940, under the provisions of the Friendly Societies Act, 1896, and the Industrial and Provident Societies Act, 1893, viz. :—

Acock, R. G., Norwich and Watton.
 Alban, F. J., C.B.E., Newport, Mon.
 Alexander, J. H., Leeds, Blackwood and Pontypool.
 Allen, H. J., Sheffield.
 Amsdon, E. V., London.
 Anderson, L. A., Brentwood.
 Andrews, E., Chester.
 Antoine, B. W., Ealing.
 Armson, G. A., Lewisham.
 Arnold, C., Rhyl, Denbigh and Flint.
 Arnold, F. V., Brighton, Horsham, Chichester and Steyning.
 Arthur A., Rotherham.
 Ashworth, W., Burnley.
 Atkins, J. R., Macclesfield.
 Attiwell, R. J. T., Birmingham.
 Bailey, H., Manchester.
 Baines, J. V., Stockton-on-Tees.
 Baker, W. B., Berwick-on-Tweed.
 Ball, G., Ossett.
 Bardell, A. P., Birmingham.
 Barker, A. E. S., West Hartlepool.
 Barlow, S., Manchester.
 Barrowcliff, C. Percy, Middlesbrough.
 Bartfield, I., Leeds.
 Bartlett, R. Wilson, Newport, Mon.
 Barwick, A., Workington.
 Baxter, C. F., Kettering.
 Bayliss, L. M., Leighton Buzzard, Buckingham, Chichester and Bognor Regis.
 Bayliss, W. M., Oxford.
 Beal, E., Eastleigh, Hants.
 Beer, W. W., Exeter and Exmouth.
 Benbow, L., Northampton.
 Benjafield, A. J., Wells, Som. and Glastonbury.
 Bennett, C. H., London.
 Bennett, D. H., Dovercourt.
 Bicker, H. J., Bournemouth.
 Binns, J., Mirfield.
 Black, W. C., Newport, I.O.W., and Ventnor, I.O.W.
 Blythen, S., O.B.E., Long Eaton.
 Bolton, J. B., Douglas, Isle of Man.
 Bowen, G. B., Swansea.
 Bradley, E. R., Bournemouth.
 Branson, R. M., Leicester.
 Brayshaw, W. S., Didcot.
 Broadbent, J. W., Oldham.
 Brodie, J. P., Burslem and Biddulph.
 Brodie, R. M., Hull.
 Brown, E. T., Wolverhampton and Bilston.
 Bryant, A. C., Bristol.
 Buckle, C. D., Bradford.
 Buckley, A. N., Halifax.
 Bullock, W., Gloucester.
 Burgess, G. W., London.
 Butler, J., Leeds.
 Campbell, D. E., Wolverhampton.
 Carr, E. R., Leicester.
 Carter, E., Wakefield.
 Cattell, W. C., Kettering.
 Cessford, J. C., Edinburgh.
 Chadwick, A., Bury and Ramsbottom.
 Chapman, J. A., Fleetwood and Middleton.
 Chapman, R. M., Hanley.
 Charles, W. H., Llanelly.
 Chater, T. F., Rushden.
 Claridge, C. E., Bradford.
 Clarke, F. N., Brighton and Horsham.
 Clarke, S. W., Lancaster.
 Clayton, W., Nottingham.
 Clemence, S., Rochdale.

Clinch, S. H., M.B.E., London, Seaford and Uckfield.
 Coates, F. W., Middlesbrough and Redcar.
 Coles, G. W. T., Gravesend.
 Compton, C. G., Boston.
 Condie, J., Dunfermline and Alloa.
 Coope, F. W., Blackpool.
 Cooper, D., Manchester.
 Corbin, F. E., London.
 Cossins, A. E., York.
 Couzens, J. V., Portsmouth.
 Cox, H. J., Luton and Harpenden.
 Cozens, L. J., Colchester.
 Crawford, Col. E. W., C.B.E., D.S.O., London.
 Crick, Miss F. G., Peterborough and Spalding.
 Crowe, S. E., Otley.
 Crowther, E., Barnsley.
 Cryer, M. P., Keighley.
 Cundy, F. W., Newton Abbot.
 Cutlack, W. J., London.

Daffern, T. W., O.B.E., Coventry and Solihull.
 Daniels, A., Southsea.
 Davey, H., Wakefield.
 Davies, J., Wrexham.
 Davies, O. W., Kidderminster.
 Davies, T., Bridgend.
 Davis, B. T., Birmingham.
 Davis, R., Swindon.
 Dix, W. B., Evesham and Pershore.
 Dixon, F., Leicester.
 Draper, J., Bradford.
 Dudbridge, J. S., Stroud, Glos.
 Duncan, D. C. N., Grantham.
 Dunlop, R. T., Glasgow.
 Dyer, S. A., Liverpool.

Eaves, W., Manchester and Tyldesley.
 Ednie, A., Bedford.
 Edwards, A. H., Dorchester.
 Edwards, C. E., Aberdeen.
 Edwards, H., Swansea.
 Edwards, R. H., Newcastle-on-Tyne.
 Elliott, E. A., Heywood.
 Emmans, R. J. F., Teddington.
 Entwisle, B., Manchester.
 Evans, H. R., St. Helens.

Fearnhead, J., Chorley.
 Fearnside, J., Shipley.
 Feist, H. J. B., Leigh-on-Sea.
 Ferry, G. A., Carlisle, Alnwick and Morpeth.
 Fletcher, H. R., Leicester.
 Ford, W. J., Bristol.
 Forrest, L., Batley.
 Forster, H., Macclesfield.
 Fortune, G. W., Edinburgh.
 Foster, S. E., Ashford, Kent.
 Fox, F. W., Leicester.
 Francis, S. L., Swansea.
 Friend, A. H., Newbridge, Mon.
 Frost, W. R., Totnes.

Gair, R., Newcastle-on-Tyne.
 Gait, A., Abertillery.
 Gardiner, G. F. H., Scarborough.
 Gardiner, H., York.
 Garner, R., Leicester.
 Gerrard, R., Horwich.
 Gibson, J. W., Cardiff.
 Girling, A. F. J., Barnsley.
 Goulding, E. S., O.B.E., Liverpool.
 Gowen, H. P., Norwich.
 Graham, I. D., Wetherby.
 Grassam, J., Hull.
 Griffin, C. E. B., St. Helens.
 Griffin, G. R., Birmingham.
 Griffith, F., Kendal.
 Griffith, R. O., Preston and Kirkham.
 Groves, T. J., M.C., West Hartlepool.

Hackett, P. R., Birmingham.
 Hakim, G. J., Hayes and West Drayton.

Hall, B., Shepton Mallet.
 Hall, F., Leeds.
 Hallett, A., Wrexham.
 Hanson, F. W., Castleford and Kippax.
 Hargreaves, F., Manchester.
 Harper, C. E., London.
 Harris, A. C., London.
 Harrison, C. D., Blackpool.
 Hart, N. B., Scunthorpe and Brigg.
 Hartley, J. A., Leeds.
 Hayden, G. D., Holt, Norfolk.
 Hayes, P. R., Wrexham and Corwen.
 Hayhow, G. S., King's Lynn.
 Hayward, T., Bradford.
 Heatley, N. K., Manchester.
 Henshall, J., Chester.
 Hepburn, A. E., London.
 Hill, A. H., Bristol.
 Hirst, G. L., Dewsbury.
 Hobbs, A. M., London.
 Hodge, H., Kettering.
 Hodgson, T., Manchester.
 Hollows, R., Wigan.
 Holman, W. J., London.
 Holmes, H., Pontefract.
 Holmes, J. T. L., Colwyn Bay.
 Horne, H. R., M.C., Ripley, Derbyshire.
 Horrocks, H., Bridgend.
 Horsfield, A., Bury.
 Horsfield, H. A., Bradford.
 Hort, J. H., Liverpool.
 Hubbard, F. L., Hastings and Bexhill-on-Sea.
 Hudson, T., Bradford.
 Hustwick, W., Bradford.
 Hutchinson, E. G., Newcastle-on-Tyne.

Ingram, A. J., Sunderland.

Jackson, G. H., Sutton, Surrey.
 Jenkins, H. G., Wrexham.
 Jenkins, W. R. L., Newport, Mon.
 Johnson, A. J., Winchester.
 Johnson, E. W., Wigan.
 Johnson, H. O., Bath.
 Jones, A. H., Caernarvon.
 Jones, E. F., London.
 Jones, H. B., Maidenhead.
 Judge, W. A., Skipton.

Keens, A. T., Harrow.
 Keens, P. F., Luton, Bletchley, Leighton Buzzard, Aylesbury and Hitchin.
 Keens, Sir Thomas, London, Luton, Bedford, Stony Stratford, Newport Pagnell and Buckingham.
 Keys, C. G., Birmingham and West Bromwich.
 Kilby, F. L., Brighouse.
 King, G. C., Birmingham.
 Kingston, H., London.
 Kirby, N. F., Sudbury, Suffolk.
 Kneale, H. E., Douglas, Isle of Man, and Ramsey, Isle of Man.
 Knight, S. R., Ilford.

Lake, J., Swansea.
 Lambert, W. E., East Ham.
 Larder, C., London.
 Larking, C. G., Maidstone.
 Larking, R. C., Norwich.
 Lashmore, C. S., Cardiff.
 Law, A., Matlock and Derby.
 Law, E. I., Walsall.
 Lawrence, S., Walsall.
 Lawson, G. R., Bradford.
 Laycock, S., Keighley.
 Lazenby, H., Leeds.
 Leah, H. B., Stockport.
 Lentell, C. I., Seaton, Devon.
 Leys, R. B. K., St. Neots, Bedford and Stevenage.
 Ling, W. A. J., London.
 Lithgow, W. G., Southport.
 Liversidge, H. G., Rotherham.

Lloyd, J. T., Trowbridge.
 Lloyd, W., Dudley, Worcs.
 Lloyd-Roberts, J., Caernarvon and Harlech.
 Lock, F. J., Watford.
 Lomax, H., Manchester.
 Loveridge, A., Southport.
 Lowe, J. T., Kendal.

McCutcheon, R. T., Glasgow.
 McDonald, T. W., Wood Green, London, N.22.
 Macmenemey, R., Glasgow.
 McMurray, J. C., Kilmarnock.
 Mair, A. J., Sunderland.
 Marshall, R. N., Herne Bay, Westgate-on-Sea, Broadstairs and Birchington.
 Mason, E. H., Cheltenham.
 Mawson, J. D., Ealing.
 Mayhew, W. O., London.
 Merchant, H. A., Ealing.
 Milford, C. A., Settle.
 Millman, H. T., Leicester.
 Mills, F. W. T., Doncaster, Scunthorpe and Wakefield.
 Milne, R., Glasgow.
 Miskin, A., Southampton.
 Moon, E., Sheffield.
 Moores, C. S., Exeter.
 Morgan, D. R., Newtown, Mont.
 Morgan, E. C., Newtown, Mont.
 Moss, J., Manchester.
 Moulton, P. A., Barnsley.
 Moustardier, M., London.
 Mullens, G. G., M.C., Port Talbot.

Neill, A., Stoke Newington.
 Nelson, C. Hewetson, Liverpool.
 Nicholson, J., Lincoln and Market Rasen.
 Norfolk, W. J., Clacton-on-Sea.
 Nuttall, T. V., Newark and Devizes.

Oates, G. G., Doncaster.
 Oldfield, J. W., Mytholmroyd.
 Oldfield, W., Leicester.
 Oldman, A. S., Fleetwood.
 Owen, H., Stafford.
 Oxley, H., Barnsley.

Page, J. C., Liverpool.
 Pallot, W. J., Neath and Milford Haven.
 Palmer, A. J., Fareham.
 Palmer, C. C., Colchester.
 Palmer, E. H., Nottingham.
 Paterson, J., Greenock and Rothesay.
 Payne, C. C., Norwich, North Walsham and Aylsham.
 Payne, W. G., London.
 Pearce, E. E., Cardiff.
 Pearce, M. E. J., Poole.
 Pearson, W., Bradford.
 Pearson-Griffiths, J., Cardiff.
 Pellatt, A. P., Folkestone and Hythe.
 Petrie, J., McR., Bacup.
 Pettitt, S. R., Bournemouth.
 Plant, R. A., Nuneaton.
 Platts, T. H., Birmingham.
 Pocock, B. G., London.
 Potts, N., Stalybridge.
 Pratt, A. J. S., Portsmouth.
 Pratt, H. W., Wellingborough.
 Prior, F. A., Nottingham.
 Procter, S., Padiham.
 Pugh, A. E., Newport, Mon.
 Pulsford, E. G., Poole.

Revell, H. W., Huddersfield.
 Reynolds, J. W., Huddersfield.
 Rhodes, J., Bradford.
 Rhodes, W. H., Leicester.
 Riches, E. J., Norwich and Cromer.
 Riddington, C. R., Leicester.
 Ridsdale, J. S., Walsall.
 Ritchie, P. G., Glasgow.
 Rodger, T., Newcastle-on-Tyne.
 Rogerson, C. E., Manchester.

Rollinson, C. E., Newport, Mon.
 Ross, G., Cardiff.
 Rowland, F. S., Newcastle-on-Tyne.
 Ruscoe, B., Shrewsbury, Ludlow, and Iron Bridge.
 Russell, P. W. G., Leicester.
 Russell, W. G. A., Birmingham.
 Ryland, H. C., Kew Gardens.

Saxton, C. C., Oxford.
 Scarlett, C. S., Margate and Ramsgate.
 Schofield, A., Leeds.
 Scott, W. A., Edinburgh.
 Scotter, S., Hull.
 Sheard, E., Huddersfield.
 Shepherd, J. W., C.B.E., Manchester.
 Shepherd, W. A., Risca.
 Sievwright, W. B., Perth.
 Simmonds, H. J., London.
 Simmons, M. P., Salisbury.
 Simpson, J. D., Cardiff.
 Sinclair, G. N., Oswestry.
 Singleton, J. T., Nottingham.
 Slater, J. T., Oldham.
 Sleeman, A. W. L., Swansea.
 Sly, T. W., Gravesend and Walthamstow.
 Smith, F. S., Dereham and Fakenham.
 Smith, H., Manchester.
 Smith, W., Lowestoft.
 Snow, W. K., Guildford and Horsham.
 Soddy, R. J., Eastbourne.
 Spicer, R. C., Norwich.
 Stacey, W. H., Bury St. Edmunds and Ely.
 Starkie, R. E., Leeds.
 Stemberge, P. G., Droitwich Spa.
 Stephens, C. T., Newport, Mon.
 Stephenson, J., O.B.E., Peterborough, Spalding, St. Ives, Stamford, March, Huntingdon, Chatteris, Long Sutton, Ramsey, Skegness, Horncastle, and Spilsby.
 Stewart, L. E., Northampton.
 Stewart, R., Barnsley.
 Stoddard, E. S., Longton, Staffs, and Hednesford.
 Storey, R. G., Bristol.
 Sunderland, W., Keighley.

Tamplin, J., Newport, Mon.
 Taper, R. W. G., Paignton.
 Tessier, A. N., London.
 Thomas, A. T., Ledbury.
 Thomas, D. B., Merthyr Tydfil.
 Thompson, J. W., Keighley.
 Thomson, R. C., Dundee.
 Thorner, T., London.
 Thornley, J. C., King's Lynn and Hunstanton.
 Towers, A. C., Northampton.
 Tuck, W. L., London and Exeter.
 Tucker, F., Exeter.
 Tucker, J. H., London.
 Tunbridge, S. T., Great Yarmouth.
 Tyler, G. H., Birmingham.

Vizard, L. N., M.C., Cheltenham.

Walker, R. B., Blackburn.
 Wallace, W. D., Kirkcaldy.
 Wallis, S. I., Nottingham.
 Walters, P. H., London.
 Walters, W. L. J., Gillingham, Dorset, and Sturminster Newton.
 Walters, W. T., Yeovil.
 Walton, A., Leeds.
 Walton, N. H., Sunderland.
 Ward, A., Bradford.
 Wareing, J., Preston.
 Warmington, W. H., Tewkesbury.
 Warren, R., Haverfordwest and Cardigan.
 Watkins, G. A., Neath.
 Watson, A., Manchester.
 Watson, O. A., Leicester.
 Watts, Miss E., London.
 Waud, N., York.
 Webb, E., Brighton.
 Wells, C. H., Sheffield.

West, H. W., Manor Park.
 White, A. M., Newcastle-on-Tyne.
 White, E. G., Carmarthen.
 White, J. C., London.
 White, P., M.B.E., Plymouth.
 Whiting, W. F., Wisbech, March, Mildenhall and Ramsey.
 Whitley, W. J., Bingley.
 Wilkinson, D. W., Preston.
 Williams, E. Clarke, Whitstable.
 Williams, E. J., Carlisle.
 Williams, G. R., Cardiff.
 Williams, T. E., Liverpool.
 Williamson, J. H., Ashton-under-Lyne.
 Wilson, F. O., Manchester.
 Wilson, S., Keighley.
 Windle, R. S., Barnoldswick.
 Witty, Richard A., London.
 Wood, H., Newport, Mon.
 Woolley, F., Southampton.
 Yates, J., Warrington.
 Yearsley, A., Manchester.

IN PARLIAMENT

RENT REDUCTIONS (INCOME TAX)

Lieut.-Colonel Mason asked the Chancellor of the Exchequer whether a landlord who reduces the rent of his tenant to relieve his war-time difficulties will be allowed pro rata relief of income tax, Schedule A; and, if not, will he state the reason?

Sir John Simon: Where a reduction of rent is allowed by reference to difficulties arising out of the war, claims for relief from income tax, Schedule A, will be considered on their merits; but the extent of such relief will depend upon the circumstances of each individual case. Application should be made in such cases to the Inspector of Taxes for the district in which the property is situated.

ARMY OFFICERS (INCOME-TAX ASSESSMENT)

Sir J. Nall asked the Chancellor of the Exchequer the authority under which command paymasters are deducting from officers' military pay instalments of income-tax on civil income due to be paid on the following January 1 or July 1; and whether officers are compelled to submit to assessment by the Commissioners of Income Tax at the War Office instead of their usual local Inspector of Taxes?

Sir J. Simon: The legal provisions regarding the assessment of income-tax by the Commissioners for a Public Department and the deduction of income-tax out of official pay are to be found in Section 69 of the Income Tax Act, 1918, and Rules 11 and 15 of the Rules relating to Schedule E. In the case of an Army officer those provisions do not apply to the assessment of, or deduction of tax in respect of, civil income, and it is not the practice to use the departmental machinery for recovery of tax on civil incomes except by arrangement with the officer concerned. If my hon. Friend has any particular cases in mind of the type referred to in his question, I shall be glad to cause inquiries to be made, if he will send me details. [See ACCOUNTANCY, January, 1940, pages 89-90.—EDITOR.]

DEFENCE BONDS

Sir S. Reed asked the Chancellor of the Exchequer whether he will consider empowering the Commissioners of Inland Revenue and collectors of income-tax

to accept Defence Bonds, with accrued interest, in payment of income tax, surtax and death duties?

Sir J. Simon: No, Sir. The terms of Defence Bonds are already generous, and I do not think it would be desirable to add the further benefit which my hon. Friend proposes.

CIVIL LIABILITIES (WARTIME LEGISLATION)

Sir W. Davison asked the Attorney-General when the committee appointed by the Government to inquire into the serious position in which boarding-house, apartment-house, and residential hotel keepers have been placed, largely by reason of the evacuation policy of the Government, are likely to present their report; and whether he will expedite it in view of the great hardships which are being suffered by these persons owing to the long delay on the part of the Government in dealing with the matter?

The Attorney-General: The House will appreciate, from the answer I gave to a question by the hon. Member for Stourbridge (Mr. R. Morgan) on November 2 last, that the scope of the investigations of the committee to which my hon. Friend's question refers is a very wide one, covering the whole field of civil liabilities; also that the committee do not issue any formal report, but report from time to time to the Home Policy Committee, who then consider whether legislation or other remedial action should be set on foot. The position of the classes of person to whom the question refers has received the particular attention of the committee and a close investigation made both of the nature of that position and of possible remedies. Of the possible remedies, there is not one which is not beset by difficulties and the investigations have necessarily taken time. An advanced stage has, however, now been reached, and the committee will be reporting on this subject to the Home Policy Committee very shortly.

INCOME TAX (GOVERNMENT EMPLOYEES)

Mr. R. Morgan asked the Financial Secretary to the Treasury whether he is aware that many persons who, prior to the outbreak of war, were earning small incomes from trades and professions, and were therefore liable to income tax under Schedule D, have subsequently obtained employment in Government Departments or the Services, where their salaries are taxable under Schedule E, thus being charged double Income Tax for the coming year; that many of them earning £3 or £4 a week have been informed they will be unable to draw any pay for their work during the months of January, February and March in order to meet the demands of the departmental claims branch of the Inland Revenue in respect of the salaries due to them between the outbreak of war and April 5 next; and whether, in view of the grave hardship caused by this arrangement, he will investigate the matter forthwith and meanwhile make some temporary modifications?

Captain Crookshank: If my hon. Friend will send me details of any cases he has in mind, I shall be glad to have inquiry made into them, but I do not at present understand his reference to double income tax, and I am not aware of any cases in which persons employed in Government Departments or the Services have been informed to the effect suggested in the question.

PUBLICATIONS

The Month's Publications

Budgetary Control and Standard Costs. By J. A. Scott, C.A., A.C.W.A. (Sir Isaac Pitman & Sons, Ltd., London. Price 10s. 6d. net.)

Introduction to Business Management. By Edward Brown, F.C.I.S. (Sir Isaac Pitman & Sons, Ltd., London. Price 5s. net.)

The process of balancing anticipated expenditure against income, in order to confine expenditure within proper limits, is a very familiar one. This is budgeting in its simplest form, but it is entirely negative. Budgetary Control, on the other hand, is positive, and it is the positive nature of Budgetary Control that is so clearly illustrated in Mr. J. A. Scott's "Budgetary Control and Standard Costs." While admitting that these well-known features of modern industrial administration can stand alone, and function quite independently of one another, Mr. Scott shows the very close relationship which exists between them.

The first part of the book deals very thoroughly with the preparation of the budget up to the final stage of preparing a projected profit and loss account and a balance sheet at the end of the budgeted period. Preceding this are two introductory chapters, in the first of which Mr. Scott discusses "What management wants to know," and gives a very useful schedule of the managers concerned, and the information which is appropriate to each.

Management itself is sometimes the biggest stumbling-block in installing any advanced method of administration. To quote Mr. Scott on this point:—"Managers sometimes have to be educated before 'What management should know' and 'What Management wants to know' coincide." The practical nature of this book can be illustrated by quoting one characteristic phrase: "Information is not obtained because it is interesting, but because it is useful."

A later section of the book contains a very comprehensive description, with specimens, of the budget and cost reports by which positive control can be exercised. This section also contains a chapter on cost accounts. There is a separate section on financial control, and the book closes with a section entitled "Action," in which the author shows how observation of reports is translated into action. There are some interesting observations on the probable explanation of specific differences

between "Budget" and "Actual." This section also includes appendices on costing methods, machine accounting and monthly accounts. In spite of their brevity, these appendices add value to the book.

Mr. Scott has rendered great service in preparing this book, which, although useful to the advanced student, should be of even greater benefit to those who have the opportunity to apply its principles in practice. Few businesses are so constituted that the theory could be entirely translated into practice, but the methods outlined could and should be applied, to some extent, in every industrial concern.

A book which is directed more to the student, and confines itself to the management of a commercial office, is Mr. Edward Brown's "Introduction to Business Management." The choice of title is unfortunate, because the term "Business Management" is used in a somewhat restricted sense. This book is nevertheless useful, and Mr. Brown has not made the mistake (quite a common one) of assuming that his readers are already familiar with the subject. For the young student, this book will provide a useful introduction to Office Management.—J. J. ELSDEN.

BOOKS RECEIVED

Loose-leaf War Legislation. Edited by John Burke. Parts 10 and 11. (Hamish Hamilton (Law Books), Ltd., London. Price 5s. net per part.)

"Taxation" Manual. Compiled by barristers and experts under the direction of Ronald Staples. Third edition. (Taxation Publishing Co., Ltd., and Sir Isaac Pitman & Sons, Ltd., London. Price 10s. 6d. net.)

A Treatise on the Law of Bills of Exchange, Promissory Notes, Bank-notes and Cheques. By the Right Honourable Sir John Barnard Byles. Twentieth edition with editorial notes by A. W. Baker Welford, Barrister-at-Law. (Sweet & Maxwell, Ltd., and Stevens & Sons, Ltd. Price £2 2s. net.)

The Companies Act, 1929, rewritten. By John E. Almond, A.C.A. (Antony John, Ltd. Price 2s. 6d. net.)

STUDENTS

Goodwill

In practice, more or less arbitrary methods of valuing goodwill are very frequently used. Partners, for example, often agree to value goodwill, if the necessity should arise, at so many times the average net profits for a certain number of years. The Inland Revenue usually value goodwill for estate-duty purposes in much the same way, and in many professions, too, it has become conventional to value it

on a similar basis. There is not usually a great deal of theoretical justification for these rule-of-thumb methods. They have established themselves for the simple reason that otherwise it might be extremely difficult to reach any agreement at all, for goodwill is a most extraordinary asset. Its nature is peculiar; there is still no general agreement upon a definition; its valuation, even by what at first sight seems to

be the fairly simple method of super-profits, is subject to one uncertainty after another.

Goodwill is the most fixed of all the assets, for though all the other assets could conceivably be sold while still leaving the business nominally in existence, once goodwill is sold the inference is that the business must cease. Yet, in spite of its fixed nature, its value fluctuates freely for, if the super-profit theory is accepted, its value must be regarded as being susceptible to changes in the profits earned, or, more correctly, likely to be earned. Moreover, its value increases with increasing profits so that it is likely to contrast with assets of a wasting nature for, if the increased profit is due to increased turnover, the latter will depreciate more rapidly than usually. And yet a case can be made for subjecting goodwill, under certain circumstances, to an accounting treatment very similar to that accorded to a wasting asset, although no provision for its replacement is required. It is the perfect example of an intangible asset, and, in spite of the fact that it might possibly be the most valuable asset in the balance sheet, it is almost useless for security purposes.

With these peculiarities in mind, it is not surprising that attempts at definition have proved unsatisfactory. Suggestions have been made from time to time during the hearing of cases. "The probability that the old customers will resort to the old place," and "the benefit attaching to connection and reputation" are well known phrases which, as definitions, are not satisfactory, since they illumine only certain aspects of goodwill. An accountant would probably wish to define it as "the capitalised value of anticipated super-profits," but this, unfortunately, is almost meaningless to anyone who is not a specialist. The simplest description of goodwill is that it is a sum paid in order that the payer might be placed in a position where he is able to earn more profit than he would have if he had not paid it. As a definition, this is clearly imperfect, but, at any rate, it conveys an idea which is capable of development, and it is this idea which underlies the super-profit method of valuing goodwill.

Convention and legal decisions have relieved the auditor of a great deal of responsibility in the matter of valuing goodwill for balance-sheet purposes. In most cases, it is retained in the balance sheet at cost price, and although, under suitable circumstances, there is nothing in law to prevent its being written up, there is on the other hand no obligation to write it down. For the accountant in practice, the difficulties are likely to arise if he is consulted with reference to a valuation of goodwill upon purchase or sale, or when there are changes in the constitution of a partnership, or where a person dies possessed of a business. For these purposes, the problem is generally approached by way of super-profits.

The explanation and some of the difficulties of this method can best be shown by a simple illustration. Suppose that A is proposing to buy the retail shop of B. The first step would be to agree a figure to be paid for assets such as stock, fixtures, debtors (if to be taken over), and so on. No attention is given to goodwill at this stage. Assume that the agreed value of these things (less, of course, the amount of any liabilities for which A proposes to make himself responsible) is £2,000. The next step is to assess the value of the managerial services to be rendered to the business by A himself. Assume that these are worth £250 p.a. The third step is to estimate what profit (before deducting interest on capital and a reward for managerial services) the business is likely to earn in the future. Here the first real uncertainty is met. Accounts for previous years will clearly be of assistance but they must be used intelligently, and will almost certainly have to be re-drafted so as to allow for matters which will be different after the change of ownership. Trends will be as important as actual figures, and knowledge of local conditions must be applied. Even after the best attention has been given to the estimate of future profits, it should be remembered that it still is only an estimate which is subject to a very wide margin of error in most cases. (The nature of the business is clearly relevant here.) The fourth step is to attach a rate of interest to the particular trade. This is not exactly the rate of loan interest, for if full security could be offered, this rate would not differ materially between one trade and another. Perhaps the best way to settle this point is to find an answer to the question: on the average in this particular trade, what is the percentage reward, the prospect of which would just induce a person to invest money as a dormant partner? Here is a second uncertainty, but suppose in the specific case that 7 per cent. was regarded as reasonable.

We now have, on the one hand, a reasonable return on the capital which A proposes to invest, *i.e.*, 7 per cent. of £2,000=£140, together with the £250 p.a. reward for his services—*i.e.*, a total of £390 p.a., and, on the other hand, the profit which the business is likely to make in the future. If the former exceeds the latter, then it may be said with a fair amount of assurance that there can be no question of a payment for goodwill, for, when the business is unlikely to yield A as much as he could obtain by investing his capital under similar conditions of risk in some other concern and by accepting elsewhere a salaried position involving similar duties, then he is not likely to purchase the business at all, leave alone pay an additional sum for goodwill.

On the other hand, if the latter exceeds the former, we are not at liberty to assume at once that there must be goodwill. Some attempt must first be made to unravel the causes of the excess. If it can be

attributed mainly to the personality or the personal skill of B, then the fact that he will not be continuing might eliminate altogether any excess. (If this factor has been allowed for when estimating future profit, it will not be necessary, of course, now to consider it again.) If it is the site of the premises which gives rise to the excess, then the terms of tenure of the property are of paramount importance. If the property is held on a week-to-week tenancy, it is difficult to see that any goodwill—as an asset saleable by the tenant—can exist since the landlord can so easily appropriate it to himself by means of an increase in the rent. Even in the case of leases, it should be borne in mind that the lessee's legal right to claim a sum for goodwill from the lessor upon the termination of the lease is not likely to be an easy matter to sustain in the Courts.

If it can be assumed that allowances can be and have been made for all such factors, and that an excess, *i.e.*, super-profit, still remains, there is now the difficulty of finding a basis upon which it may be capitalised in order to find a proper sum to be paid by A to B for goodwill. Is it to be capitalised outright by multiplying, in the specific case, by $\frac{100}{7}$?

If this is done, the inference is that the goodwill will produce its super-profit year after year in much the same way as an investment produces interest. Alternatively, is goodwill better regarded as a kind of momentum possessed by the business so that it produces the super-profit for a limited period only? If this conception is more correct, then the super-profit ought to be capitalised on the basis of a terminable annuity, and the calculation would probably make use of the fact that the present worth of an annuity of £1 p.a. for n years where i (*e.g.*, .05 for 5 per cent.) is the appropriate rate of interest, is $\frac{(1+i)^n - 1}{(1+i) \times i}$. Or, if goodwill is a kind of momentum, should not the correct calculation be something along these lines: what is the total present worth of £100 (say) at the end of one year, £70 (say) at the end of two years, £40 (say) at the end of three years, and so on?

It is important to notice that if goodwill is regarded and calculated as the payment for excess profits to be received in the future, then it is clear that as these are actually received they should be used to write down the value of goodwill, and should not be treated as ordinary revenue profits.

This brief survey of the theoretical difficulties which would face the accountant in an attempt to make a reasonable and objective valuation of goodwill is sufficient to show that his task is extraordinarily difficult. At point after point, he will meet matters upon which differences of opinion are pro-

bable. It is small wonder then that in practice, a valuation of goodwill usually resolves itself more into a test of bargaining ability than a disinterested calculation from given data. The super-profit method can indicate approximate limits within which the value ought to fall, but just where it will fall in any given case is in practice a matter for bargaining between the parties interested.

EVACUATION FROM LONDON

The following is an extract from a letter which has been sent to the London Chamber of Commerce on behalf of the Minister of Home Security:—

"In the view of the Government the factors in the general situation which led to the transference of businesses to safer areas at the outbreak of war remain unchanged and should be given the same weight as in September last. Firms which can carry on outside London without serious dislocation of their work have acted in the national interest by removing their staffs to safer areas; and, if they have found it possible to carry on their business from the areas to which they have moved, they would be doing a disservice, not only to their staffs, but also to the national interests by returning now to London. The Government have never suggested that businesses which could not carry on outside London without serious loss of efficiency should remove to other areas; and it is for each individual firm to balance considerations of efficiency and convenience against the advantage of dispersal and to decide, in the light of the circumstances affecting its own business, which is the proper course for it to take. Firms which have transferred staff away from London will have had practical experience, during the course of the last four months, of the extent of the difficulties involved in working outside the London area; and to that extent they will be in a better position now than they were in September to weigh up the various considerations involved and to decide what is the proper course to adopt."

RECENT LEGAL CASES

The following recent legal cases are dealt with in this issue:

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<i>Rowan's Trustees v. Rowan</i> ...	125
<i>Bomford v. Osborne</i> ...	125
<i>Re Morrison's Will Trusts, Walsingham v. Blathway</i> ...	126
<i>Re Capon</i> ...	126
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<i>Hunt Brothers (a firm) v. Colwell</i> ...	127
<i>Cooper v. Luxor (Eastbourne), Ltd.</i> ...	127

Society of Incorporated Accountants

COUNCIL MEETING

WEDNESDAY, JANUARY 24, 1940

Present: Mr. Percy Toothill (President) in the chair, Mr. Richard A. Witty (Vice-President), Mr. F. J. Alban, Mr. R. M. Branson, Mr. J. Paterson Brodie, Mr. W. Norman Bubb, Mr. Arthur Collins, Mr. W. Allison Davies, Mr. E. Cassleton Elliott, Mr. Walter Holman, Sir Thomas Keens, Mr. Bertram Nelson, Mr. James Paterson, Mr. F. A. Prior, Mr. Joseph Turner, Mr. Fred Woolley, Mr. A. A. Garrett (Secretary), and Mr. L. T. Little (Deputy Secretary).

Apologies for non-attendance were received from: Mr. A. Stuart Allen, Mr. C. Percy Barrowcliff, Mr. R. Wilson Bartlett, Mr. D. E. Campbell, Mr. M. J. Faulks, Mr. Alexander Hannah, Mr. Edmund Lund, Mr. Henry Morgan, Mr. C. Hewetson Nelson, Mr. R. E. Starkie, Mr. A. H. Walkey, and Mr. R. T. Warwick.

RESIGNATIONS

The following resignations of membership were accepted with regret as from December 31, 1939:—

AIRTH, GEORGE RENNIE (*Fellow*), London.

HAMILTON, FREDERICK ALEXANDER (*Associate*), Beckenham.

JENKINS, JAMES ALEXANDER (*Fellow*), Keston.

JOHNSTON, ALEXANDER YOUNG (*Associate*), London.

LOTHOUSE, WILLIS JOHN (*Associate*), London.

LOSEBY, GEORGE CHARLES ASHDOWN (*Associate*), Chipping Norton (previously Cape Town).

NEW, FREDERICK (*Associate*), Hove.

PAYNE, WILLIAM GEORGE (*Associate*), Kingston-on-Thames.

WREFORD, HERBERT FRANCIS (*Associate*), Caterham.

DEATHS

The Secretary reported with regret the death of each of the following members:—

BARRON, ARTHUR HENRY (*Associate*), York.

HOARE, HENRY JOHN (*Fellow*), Friston.

LAMPRELL, FREDERICK CHARLES (*Associate*), Barnet.

LLOYD, BENJAMIN (*Associate*), Dudley.

MITCHELL, THOMAS CARLYLE (*Fellow*), Pietermaritzburg, South Africa.

RACE, ROBERT WILLIAM (*Associate*), Corbridge.

SHEPHERDSON, CHARLES AMBROSE (*Associate*), London.

SMALLBONE, LIONEL HUGH (*Associate*), Haywards Heath.

STURGES, HENRY HOLTON (*Associate*), London.

WILLETT, FREDERICK (*Fellow*), Manchester.

MINISTRY OF SUPPLY

A report was received of the appointment of Mr. E. Cassleton Elliott as Controller of Costings (this appointment is noted on page 109 of this issue).

JOINT WAR ORGANISATION OF THE BRITISH RED CROSS SOCIETY AND THE ORDER OF ST. JOHN OF JERUSALEM: WAR SERVICE FUND OF THE Y.M.C.A.

The Council, recognising the national and special character of appeals made on behalf of the two foregoing war organisations, approved that the following contributions be made from the Society's funds:—

300 guineas to the Joint War Organisation of the

British Red Cross Society and the Order of St. John of Jerusalem;

100 guineas to the War Service Fund of the Y.M.C.A.

It was decided that the confirmation of the action taken by the Council should be sought from the members of the Society at the next annual general meeting.

PRICES OF GOODS ACT, 1939; LOCAL PRICE REGULATION COMMITTEES

A report was received of the names of those Incorporated Accountants who had been appointed as members of the Local Price Regulation Committees by the President of the Board of Trade.

EXAMINATIONS, DECEMBER, 1939

The Council adopted resolutions of thanks to the Council and Headmaster of Taunton School, and to the Governors and Principal of the Southport Technical College respectively for the valuable facilities accorded to the Society in respect of the examinations held in December, 1939.

MEMBERSHIP

The following additions to and promotion in the membership of the Society have been completed since our last issue:—

ASSOCIATES TO FELLOWS

Morgan, Geoffrey (Morgan Brothers & Co.), London, Practising Accountant; **Staite**, Laurens Haddon (Spain Brothers, Staite and Co.), Worthing, Practising Accountant; **Woods**, Frank (Morgan Brothers and Co.), London, Practising Accountant.

ASSOCIATES

Ahearne, Anthony Thomas, formerly with W. A. Deevy & Co., Waterford; **Cain**, Francis Thomas, with Reginald L. Tayler & Co., London; **Curran**, John Joseph, formerly with Gerald J. Moore, Dublin; **Cuthbert**, John George Wilson, with Simpson, Wreford and Co., London; **Datta**, Manesh, M.A., LL.B., with S. B. Billimoria & Co., Lahore; **Davidson**, Lionel Louis, formerly with Talbot, Ellis, Jack & Co., London; **Ellis**, Frank Reginald, formerly with Hancock, Gilbert and Co., London.

DUBLIN STUDENTS

The Students' Section of the Society of Incorporated Accountants in Ireland held its annual dance on January 11, at the Gresham Hotel, Dublin. Some 280 people were present and the function was highly successful.

SCOTTISH NOTES

The late Mr. W. Davidson Hall, the senior Vice-President of the Scottish Branch, and for many years Honorary President of the Glasgow Students' Society, bequeathed £100 to the Scottish Branch in the form of one of the Society's debentures. Since these debentures were issued by the Society, Mr. Davidson Hall gave the interest annually to form a

prize fund for Scottish students, and in other ways was a generous supporter of the Scottish Branch.

New Scottish Companies

There was a considerable fall in the number of joint stock companies registered in Scotland in 1939 compared with the number in 1938, but despite war conditions there was a rise in the capital involved. The total of registrations during the past twelve months was 571, being a decrease of 145; the total was lower than any year since 1932. The total nominal capital was £8,977,700, which is an increase of £2,367,500 over 1938, and is the largest since 1929. But for the registration in the last week of the year of seven companies in connection with the undertaking of the Burmah Oil Company, Ltd., with a total capital of £2,386,000, there would have been a decrease in 1939 both in the numbers of companies registered and in their capital. The great majority of the companies were of a private character.

FORTHCOMING EVENTS

- | | | |
|--------|----------|--|
| Feb. 1 | Bradford | At 6.30 p.m. Lecture by Mr. E. Longbottom, A.S.A.A., on "Income Tax Computations." At the Liberal Club, Bank Street, Bradford. |
| 13 | London | Students' Society Meeting at Incorporated Accountants' Hall at 5 p.m. Mock Public Examination of a Bankrupt, arranged by Mr. D. Mahony, F.S.A.A. |
| 14 | Bradford | At Liberal Club, Bank Street, Bradford, at 6.30 p.m. Lecture by Mr. S. Dixon, M.A., A.C.A., on "Taking Examinations." (By kind invitation of Bradford Chartered Accountants' Students' Association.) |
| 23 | Bradford | Twelfth Annual Supper Dance at the Midland Hotel, Bradford. |

CHANGES

Messrs. Gillot & Bromwich announce that the partnership heretofore subsisting between them was dissolved by mutual consent as from December 15, 1939. Mr. C. E. Gillot will in future practise in partnership with Mr. T. Alan Pratt, Incorporated Accountant, under the style of Chas. E. Gillot and Pratt, at Corporation Buildings, Horsefair Street, Leicester, and Mr. P. A. H. Bromwich, Incorporated Accountant, will in future practise on his own account at 12, Halford Street, Leicester.

Messrs. A. F. Saunders & Co., Chartered Accountants, announce that as from December 31, 1939, Mr. C. D. Hellyar, A.C.A., is by mutual agreement retiring from the partnership. The business will be continued by Mr. A. F. Saunders, F.C.A., and his son, Mr. A. D. Saunders, A.C.A.

Messrs. R. D. Munro & Co. have pleasure in announcing that, as from September 1, 1939, Mr. Thomas Stewart Scott, A.S.A.A., and Mr. Percy James Wright, A.C.A.,

who have been associated with the firm as members of the staff for many years, have been admitted into partnership. The style of the firm will remain unchanged.

Mr. F. S. Perryman, Incorporated Accountant, has acquired the practice of Messrs. R. Tyson, Hodgson & Co., and will carry on business at 6, Scarborough Street, West Hartlepool.

Messrs. McPherson, Timmins & Ednie, Chartered Accountants, 7, Paul's Square, Bedford, announce that their London office has been discontinued.

Messrs. Painter, Mayne & Walker, Incorporated Accountants, of 103, Cannon Street, London, E.C.4, have admitted into partnership Mr. H. W. Mayhew, Incorporated Accountant, as from January 1, 1940. The style and address of the firm will remain unaltered.

REMOVALS

Mr. Arthur B. Watts, Incorporated Accountant, has removed his offices to 12, Museum Place, Cardiff.

Messrs. W. G. A. Russell & Co., Incorporated Accountants, have removed their offices to Priory House, 184, Bristol Road, Birmingham.

Messrs. G. L. Cowtan & Co., Incorporated Accountants, have removed their offices to 28, Langton Avenue, Oakleigh Park, London, N.

Messrs. Lawrence D. Rose & Co., Incorporated Accountants, announce a change of address to 4, Tokenhouse Buildings, King's Arms Yard, Moorgate, London, E.C.

EXCESS PROFITS TAX

We have received a copy of *The Excess Profits Tax*, a course of reading prepared in mimeograph form by Victor H. M. Bayley, F.C.A., F.S.A.A., and E. Miles Taylor, F.C.A., F.S.A.A. The course consists of ten sections and runs in all to some 170 pages of type. It deals exhaustively with the new tax and will be found very useful by the practitioner and student wishing for a comprehensive guide to its working. In our last issue, Mr. J. G. McBurnie, reviewing several recent books on the tax (among them one by Mr. Bayley and Mr. Taylor, which the reviewer thought the best of the books that had thus far appeared), said that the book the profession is waiting for will perhaps not be published until the Act has been clarified and amplified. The authors, in presenting this course, have given most practising accountants a sufficiently comprehensive guide while the revision of the Act is being awaited. They now deal fully with subsidiary companies on which their treatment in the book was somewhat inadequate. The complete course is priced at £1 11s. 6d., but is available until February 12 from the British College of Accountancy at £1 1s.

We have also received a copy of *The Excess Profits Tax* by H. A. R. J. Wilson, F.C.A., F.S.A.A., which can be obtained from H. Foulks Lynch & Co., Ltd., for 2s. 6d. This is a lucid and workmanlike summary of the tax compressed into 48 pages and will be particularly welcomed by the student who is coming fresh to a study of the subject and the practitioner who has not yet made himself familiar with its details. It can be thoroughly recommended as a very useful condensation of the provisions of the tax.

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